Manitoba

REPORT OF THE PROVINCIAL AUDITOR

to the Legislative Assembly

for the fiscal year ended

March 31, 1988

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INTRODUCTORY COMMENTS

The Provincial Auditor's Act requires that the Provincial Auditor report annually to the Legislative Assembly on the work of his Office and whether he received all the information and explanations he required. In reporting to the Assembly, the Act also requires that he report anything he considers significant and of a nature that should be brought to the Assembly's attention.

In accordance with these requirements, information regarding the work of the Office is provided in the following sections of this Report. Information on the approach we take to the work of our Office is provided in the Organization and Activities of the Office section and Exhibit 2 of this report. I am pleased to be able to report that we received all the information and explanations we required.

To fulfill our responsibilities under the Act, we audit the Consolidated Fund on an ongoing basis. In addition, we audit most Crown entities. We do other audit work where private auditors have been appointed to carry out attest audits of certain Crown entities. We review departmental monitoring procedures for grant recipient accountability and do inspection audits of grantees. We also do special audits. As a result of this work, we note matters which require improvement and provide recommendations in writing to management and Ministers on these matters. These written matters form the basis of our Report to the Legislative Assembly. The significant matters are reported in the following sections of our report:

- Government's Central Management System
- Government Control Over Crown Agencies
- Departmental Operations
- Agency Operations

The most significant concerns and recommendations have been summarized in the Summary of Concerns and Recommendations section. In that section, we also acknowledge the prior concerns that have been resolved. We are particularly pleased with the reduction in the fragmentation of operating results. This has enabled us to issue an unqualified audit opinion on the Government's financial statements for the year ended March 31, 1988.

In reading this report, one should remember that the concerns reported reflect, or arise mainly from, administrative problems and that this report is a report by exception. As such, it cannot be a balanced report. The report emphasizes serious concerns, without recognizing situations where we did not observe concerns. Given the size and diversity of Government operations, it would be unusual not to have some weaknesses in systems and deficiencies in operations. It is important to acknowledge, and for a reader to appreciate these conditions. It is also important to note that most of the audits completed during the year did not identify matters requiring reporting to the Assembly.

As a result of our work, we note that public service managers have an increasing awareness and acceptance of the need to get more out of the funds allotted by the Legislature. Greater attention is being given to controlling Government spending levels.

INTRODUCTORY COMMENTS

Management processes and practices continue to improve. In addition, we observe greater efforts being made in strengthening accountability relationships. The positive response that most of our recommendations receive from management contributes to the ongoing improvement in operations. These positive responses do not, however, lessen the importance of our current concerns and recommendations for improvement. Exceptions to this positive trend have been included in this report.

Government is becoming increasingly complex with greater demands being placed on officials and support staff. As a result, public service managers are having to change previous practices. They have had to improve their skills and capabilities to be able to successfully react to the changes and the resulting new demands being placed on them. These include technological, organizational, social and system changes. There is an increasing demand for more meaningful information on a more timely basis. Managers are having to work with new tools brought about by technological improvements, such as computerization, to meet increased informational needs. Managers are having to be able to react to organizational changes such as the restructuring of departments and changes in reporting relationships. The demands by governments for restraint and expenditure reduction also require adaptation. Managers are also having to deal with other new pressures and varied social issues such as freedom of information, affirmative action, pay equity, and changing staff expectations and relationships. Further, there are increased performance expectations that are affecting the organization, staff and managers. This has not been an easy environment within which to function well. It has become obvious that certain operations will require additional resources to meet the increasing demands. However, we find that, generally, public service managers are performing satisfactorily in this very challenging environment.

Because the operations of the Government are diverse and complex, we also provide comments on the Public Accounts and its present limitations.

This report also includes exhibits which provide additional information. These exhibits include reproductions of the Government's summary financial statements and the trust fund assets and liabilities reported in Public Accounts. Our opinion regarding fairness in presentation of the Government's summary financial statements is provided as Exhibit 7.

SUMMARY OF CONCERNS AND RECOMMENDATIONS

The more significant concerns and recommendations in this report are summarized below:

Government's Central Management System

Planning and Budgeting (page 7)

A multi-year financial plan is essential to legislators, the media and the public when they attempt to understand the implications of current fiscal plans for the budgeted deficit in relation to future years. We recommend that multi-year financial information be made available to the Legislative Assembly, the public and departmental managers.

Government Control Over Crown Agencies

Administrative Policy for Crown Agencies (page 22)

There is a need in the Manitoba public sector for greater consistency of administrative policies among Crown agencies, for a rationalization for significant variances between policies in the civil service and Crown agencies and for a clarification of the responsibilities of various levels of accountability in Government. We recommend that steps to achieve greater consistency be pursued as a priority matter.

Departmental Operations

Accounting for Lottery Funds (page 27)

Last year we expressed concern with the basis of the financial reporting of the Department of Culture, Heritage and Recreation operations in Public Accounts. Our concern resulted from the fragmentation in financial reporting of departmental activities in the Government's revenue and expenditure statements.

We recommend that appropriate procedures be put in place so that the lottery transactions currently processed through trust fund accounts are included in Government revenues and expenditures of the Consolidated Fund's operating division for reporting in the Government's annual financial statements.

Department of Northern Affairs (page 30)

Deficiencies in the Department's planning, reporting and comptrollership practices have continued. While some progress has been made, it has been limited. Much needs to be done before the Department's management practices will be operating at an appropriate level. We recommend that special emphasis be given to addressing the identified concerns so that they are resolved as quickly as practicable.

Various Departments - Overexpenditure (page 31)

For the third year in a row, a number of departments incurred expenditures in excess of their spending authority. Seven departments exceeded their spending authority by

approximately $2.2 million in 1988 (1987 - twelve departments, $4.0 million). This represents a significant decrease in overexpenditures over the previous year and results from action taken as a result of Ministerial direction to remedy this situation. While the dollars are not large in relation to the Government's overall operating budget, we are concerned with any weakening of legislative control. We recommend that appropriate management controls be developed and implemented as soon as practicable.

Agency Operations

Communities Economic Development Fund (page 34)

We have reported for three years that there are deficiencies in the Fund's management practices, including the documentation and monitoring policies and procedures for loans. Effective management practices are required to maintain the high standard of accountability which is expected from any organization responsible for public funds.

On October 7, 1988, the Minister of Finance requested the Provincial Auditor to conduct a special audit of the Fund. Because this special audit is underway, we are unable to provide definitive comments in this Report to the Legislative Assembly, other than to indicate that, while some improvements have been made, many of the concerns we identified last year have not yet been resolved.

Workers Compensation Board (page 43)

Since 1983, we have reported that the operations of the Workers Compensation Board are not in compliance with The Workers Compensation Act. The Board is required by its Act to assess each year employers in each Class Fund amounts sufficient to meet all amounts payable as a result of accidents during the year. The Class G Fund, representing the general body of employers assessed under the Act, has had annual deficits on the year's operations since 1981 and has been in a deficit balance since 1984.

We again recommend that action be taken as quickly as practicable to bring the activities of the Board into compliance with legislation and to adopt a sound fiscal policy for funding the Board's operations.

Public Accounts - Accounting Policies, Present and Future

Employee Pension Benefits (page 61)

Employee pensions continue to be a significant cost of Government and its agencies. As we reported last year, there exists in excess of $1 billion in unrecorded pension costs in the Manitoba public sector.

The current method causes interperiod inequity and a fragmentation of operating results. We continue to recommend that an action plan for adopting appropriate accounting policies for pensions in the public accounts and agencies be developed. We also recommend that Government guidance be provided so that the next set of financial statements issued by agencies reflect appropriate accounting policies for pension costs.

SUMMARY OF CONCERNS AND RECOMMENDATIONS

We recommend that the estimates presented to the Legislative Assembly for the year ending March 31, 1991 contain a provision for recording pension benefits earned by employees during that year.

We note that the management consulting firm engaged by the Government made recommendations regarding pension benefits. The Government has accepted the consultant's recommendations and has agreed to act on these recommendations as soon as practicable.

Fixed Assets (page 64)

We reported last year that the current method of accounting for physical assets and its impact on operating results needs to be significantly improved. The current method causes interperiod inequity and a fragmentation of operating results because it fails to recognize that many of the capital related expenditures made by the Government benefit more than one fiscal period. Action to develop the information required to implement improved fixed asset accounting has been limited because of other priorities. The Public Sector Auditing and Accounting Committee (PSAAC) is currently reviewing the issue of fixed assets. We recommend that a planning framework be developed so that the Government is in a position to react to recommendations made by PSSAC.

Matters Considered Resolved Or Significantly Improved

Department of Education (page 28)

For several years we have recommended action to eliminate the inequity to education financing resulting from a significant delay between the dates school tax levies are collected by municipalities and the due dates for remittance to school divisions and The Public Schools Finance Board.

In January 1988, the Government announced plans to amend the regulation governing the remittance of school tax levies. In September 1988, the regulations were amended to provide for remittance of school tax levies to school divisions and The Public Schools Finance Board on a timely basis. We consider this matter resolved.

Reduction in Fragmentation of Operating Results (page 68)

For the past several years, we have been highlighting specific areas where accounting policy and reporting changes were needed. We used the term "fragmentation of operating results" to describe the effects of inappropriate accounting policies and presentation practices. By fragmentation, we mean that the operating results are either not located in one place or are not readily understandable.

As a result of changes made in the 1988 Public Accounts, a number of our prior concerns regarding the fragmentation in operating results have been addressed. These include the method of accounting for changes in valuation allowance, consolidation of Manitoba Properties Inc., the method of reflecting estimated costs for the divestiture of Flyer Industries Ltd. and funding arrangements for the Communities Economic Development Fund. Improvements have been made in the Government's accounting policies and

financial statement presentation to significantly reduce the fragmentation of operating results. We consider that the actions taken result in a significant improvement in the disclosure of operating results.

GOVERNMENT'S CENTRAL MANAGEMENT SYSTEM

General Comments

The size and complexity of Government is such that a formal management system is required to use resources effectively. Responsibility for the Government's central management system is vested in Treasury Board, with staff assistance from the Department of Finance, and the Civil Service Commission.

Strengthening the central management system to enhance accountability has been necessary because of increasing demands on the public sector and limitations on funds with which to carry out Government programs. Recent action taken by Treasury Board includes efforts to strengthen departmental administrative processes for priorizing expenditures. We believe that there is a need to find more efficient ways of achieving objectives and for better processes for measuring results. The identification of imaginative options for delivering services in a high-impact, efficient fashion is still a high priority of the Government.

Accountability has become increasingly important in the public sector. Over the years, the Government has made improvements to established accountability mechanisms and processes. These include the Estimates, annual reports, committees of the Legislature and the audit process. In previous reports, we provided recommendations for further improving these processes. This report provides an update as well as providing recommendations for further improvement.

The issues commented on in this section are basically government-wide issues. We comment on these issues under the branch of Government that, in our view, has responsibility to monitor and control these issues. However, ultimate responsibility for implementing improvements rests with Treasury Board and Cabinet.

Treasury Board Secretariat

Planning and Budgeting

In prior reports we expressed concerns regarding the absence of published Government multi-year financial plans and projections. We recommended the development and distribution of a multi-year financial plan to assist in evaluating the financial position and economic strength of the Province. This would assist the Government in providing reasonable assurance that decisions being taken do not extend the Province beyond its financial limits. The plan would be valuable to Members of the Legislature during their annual review of the budget and Estimates by providing them with meaningful supporting information. The plan would help departments and Crown entities in clarifying long-term priorities and objectives. We appreciate that predicting the future is difficult. Multi-year global projections, however, can assist in understanding current requirements and in making difficult resource allocation decisions. These projections would not need to be detailed at the departmental level but should mainly provide information on the Government's projected deficit position.

The process of government is a complex one of balancing conflicting priorities. The pace of technological and social change in recent years has rendered the achievement of this balance ever more complex. In addition, governments have responded to perceived

new demands through dramatic growth in the level of expenditure and the bureaucracy supporting these expenditures. As an analogy, one can relate the growth of government to changes in shipping over time. The comparatively tiny vessels used previously were easier to change direction than the huge supertankers plying today's seas. Supertankers have so much momentum that it takes an enormous amount of sea to stop or bring about a change in direction safely and efficiently. As a result, they must make use of the most sophisticated technology available to know what is going on in the waters around them, particularly those just ahead. Similarly, governments need a considerable amount of time to respond to changes in priorities. Radar and other technologies help supertankers keep to the best route to get to their destination safely. Long-range planning and published projections can act in a similar way by enabling Government to identify and implement required changes in direction and have the citizens accept the changes early enough to minimize any negative impact on the people of Manitoba.

Only through analysis of longer-term information is it possible to evaluate whether existing Government service levels can be maintained without future tax increases. We believe that the business community could benefit significantly by having knowledge of longer-term plans for specific programs. The business community and general public may infer a number of general conclusions about future expenditure levels for specific programs from a review of annual budgets developed over the past several years. They cannot, however, reasonably conclude what the Government plans in a general way for those programs without seeing at least a general projection beyond a one year Estimate amount.

To-date, long-range financial projections have not been developed to a level for distribution and review by Members, the media, or the public. This is unfortunate. It is extremely important for large, complex organizations, especially for those organizations on which many other entities are depending, to have appropriate financial plans in place on a timely basis.

During each of the last four years, the Standing Committee on Public Accounts discussed our recommendations regarding publication of multi-year information. At the meetings for the fiscal year ended March 31, 1987, the Government reported it was reviewing a number of financial planning matters. The Government indicated there were a number of problems associated with publishing a multi-year plan. One of the main problems centered around the ability to obtain meaningful revenue projection information. Despite this problem, the Government felt that projections in excess of one year had merit. Accordingly, the Government intended to continue reviewing this matter.

Some progress took place during the fiscal year which is supportive of development of a long-range financial planning document for review by the Legislature and public. Departments were again directed to focus on a longer-term, including the 1990 and 1991 fiscal years. Departments were also directed to review their various activities, to identify those which contributed least to achieving their mandate. A critical review such as this can help departments subsequently improve their approach to program defining. As part of this review, departments were also directed to identify potential expenditure reductions over a three-year period. This process helped departments appreciate potential changes in their operations. In addition, it served a useful function in having departments focus on the high priority and longer-term activities.

In addition, greater use is being made of projections in internal quarterly financial reviews. Departments were requested to explain significant variances from planned expenditures. This process is assisting departments to estimate their financial requirements, to develop a credible base of data for developing future-oriented information and to improve their monitoring and reporting capabilities. This action is positive. Once the Government and departmental support staff become comfortable with the accuracy of the longer-term financial projection process, the next step would be to release future-oriented, multi-year information for legislative and public review.

The Treasury Board Secretariat, as part of its mandate for long-term expenditure management, is giving this matter serious consideration.

In the 1988 Budget Address (August 8, 1988), the Minister of Finance stated that the budget for the next year, "will include an additional year's fiscal projection to help provide a more complete view of the context in which decisions must be made". This is a good first step towards presenting a multi-year financial plan.

Because of the importance of long-term planning on the management and control of Government operations, we recommend that the Government deal with this matter on a priority basis.

Expenditure Management

In our previous report, we indicated that Treasury Board's recently established Secretariat was given a mandate to strengthen and improve Government decision-making. This was to be accomplished through the development of an improved expenditure management process and the establishment of a firm management approach for scarce resources. To achieve these goals, we reported that organizational changes had been implemented to focus the Secretariat's efforts on fiscal planning and expenditure review.

The administrative policy group was transferred to the Secretariat during the past year to support these activities. The Secretariat conducted a review of the means by which its internal administrative activities and capabilities for developing information to Treasury Board could be enhanced. As a result of this review, the Secretariat determined that a computer network was necessary to enable it to respond effectively to Treasury Board's informational requirements. It is working to install a Secretariat based computer network so that it can benefit from this technology.

Following the recent election, the Premier assumed the Chair of Treasury Board. This represents a further noteworthy organizational development, as it indicates the importance the Government attaches to improving Government expenditure decision-making and expenditure management.

In addition, the Secretariat broadened the process of following up quarterly forecast information submitted by departments. Departments are expected to more formally explain significant variances from planned expenditures. This may require departmental officials attending at Treasury Board meetings. The Secretariat is also following up with departments to review and develop alternate plans as a result of the projected/actual variance. This expanded review process strengthens accountability and provides an

opportunity for departments to improve their forecasting, monitoring and reporting capabilities.

The process for reviewing departmental submissions to Treasury Board was changed during the past year to focus greater attention on issues of significance. Treasury Board support staff develop a summary listing of the routine items and prepare minutes for approval at the next Treasury Board meeting. The revised process enables Treasury Board to review these routine items only in summary form, thereby allowing them to concentrate on more significant issues. This process allows decisions on routine items to be communicated to departments more quickly as the revised process shortens the approval cycle.

The Secretariat identified a number of specific issues during the fiscal year which had the potential of reducing the Government's expenditure base through consolidation of functions and realignment of internal operating activities. As a consequence of more detailed reviews, some changes have taken place. A corporate approach has been taken towards system development. This has resulted in the approval of a plan subsequent to March 31, 1988 to second staff with computer expertise from various departments to participate in developing computer applications that are Government priorities. A number of issues are continuing to receive attention, because the Secretariat considers that there is potential for further operating improvements.

We recognize that these procedures may be helpful in program priorization and minimizing expenditures. We recommend that this process and the interaction with Government departments in striving for overall expenditure reduction be continued.

Legislative Expenditure Estimates

In our annual reports for the past four years, we expressed concern about the lack of legislative control over the Jobs Fund appropriation. Our concern was based on the lack of information on: the programs planned, the administrative costs, and the departments responsible for program delivery.

We previously indicated that the Government had expanded the extent of information and was working towards resolving our concern beginning with the 1988-89 Estimates.

The revised Estimates for the 1988-89 fiscal year eliminated the Jobs Fund as a separate vote resolution in the Estimates. This was achieved by transferring the various programs from the Jobs Fund appropriation to the spending Estimates of the departments responsible for their program delivery. This action resolves our prior concern.

Ministerial Expense Accounts

The existing practice regarding the submission of appropriate documentation to support Ministers' claims for reimbursement of expenses incurred requires improvement because it results in three different levels of accountability for public funds. These inconsistent requirements lead to differences in accountabilities which vary with the nature of the claim. Volume A of the General Manual of Administration indicates:

- First, that documentation is required to be submitted by Ministers to support expenses incurred which are recoverable from other jurisdictions in accordance with agreements.

  The documentation is to be sufficiently detailed to support the claim, with documents for major items of expenditure (transportation, hotel, unusual expenses) accompanying the claim for reimbursement. This level of documentation is required to ensure the expenses claimed are accepted by the other jurisdictions. Without sufficient documentation, the Government risks rejection of the claims by the other jurisdictions. These documentation requirements result in appropriate accountability of public funds.

- Second, that certain documentation is required to be submitted regarding expenses incurred while on Legislative Committee business.

  These documentation requirements are less complete than for recoverable expenses. Receipts are required for major expenditures, such as transportation and hotel accommodation, but meal and other expenses need only be reported in total. This level of documentation precludes an assessment of the reasonableness of meal and other expenditures.

- Third, that ministers are not required to file detailed expense accounts with supporting receipts regarding expenses incurred on matters relating to Ministers' other Governmental responsibilities.

  At the extreme, this could result in a Minister submitting only a total amount for reimbursement, without any information or documentation regarding the claim components. The actual documentation submitted by Ministers varies. Some claims provide complete information regarding the expenses incurred, with supporting receipts. In other instances, however, the information and documentation supporting the claim for reimbursement are lacking. We consider this approach inappropriate because it sanctions non-accountability for the use of public funds.

Consistent accountability and documentation at the Ministerial level would demonstrate leadership and be in keeping with the accountability standard expected to be adhered to by others in public service.

We recommend that the Government reconsider these administrative accountability inconsistencies and adopt practices for documentation requirements for Ministers' expenses incurred that provide accountability for the expenditure of public funds.

Treasury Board Secretariat officials advised us that they will pursue this issue with Treasury Board.

Revenue and Expenditure Variance Explanations

We previously reported that the revenue and expenditure variance explanations from many departments were neither adequate nor developed on a timely basis.

We recommended that the development of appropriate variance reporting by departments continue to receive emphasis. We also recommended that the variance explanations be included in the departmental annual reports as previously directed.

Departments have been provided with adequate instructions and realistic time frames for the completion of the variance explanations for inclusion in the Public Accounts. These instructions provide the departments with guidelines and specific expectations for the preparation of the variance explanations and their submission to the Treasury Board Secretariat. Departments provide similar information to the Treasury Board Secretariat on a regular basis throughout the year. However, the variance explanations for inclusion in Public Accounts were still not available on a timely basis.

For the March 31, 1988 fiscal year, a number of factors contributed to delay in finalizing this information. The information provided by certain Departments required clarification before it could be used. This has been a recurring problem and requires specific attention. Additionally, the election of a new government resulted in significant efforts being devoted to budget revisions and the reviews of quarterly information. In addition, policy decisions were made late in the year on write-offs and treatment of loans and advances which required revisions to information supplied by departments.

We recommend that senior Treasury Board Secretariat staff work with departmental officials to resolve this matter.

Secretariat officials have indicated that they will continue to work with departments to achieve improvements in the variance explanations. They also informed us that they will be working with the Department of Finance to have the variance explanations included in the departmental annual reports.

Personal Use - Assigned Government Vehicles

In our prior report, we indicated that there was no clear understanding across departments of the reporting requirements for personal use mileage. As a result, we had concern that there was potential for inconsistent application of the existing guidelines. Varying interpretations result in the inconsistent level of accountability for Government funds and exposes departments and employees with assigned Government vehicles to criticism. Public criticism reflects adversely on the staff and department involved, and the Government generally. We therefore recommended that the Government clarify the guidelines regarding personal use of Government vehicles assigned to employees.

Action has been taken to correct the reported situation. This action included a review of the existing policy and increased central and departmental monitoring of assigned vehicles. A document clarifying the existing personal use mileage situation has been drafted, approved and distributed recently to each department. Managers are expected to monitor staff usage of Government property and deal with abuse in a responsible manner. Increased central and departmental monitoring has resulted in the reduction of Government-assigned vehicles where they were being under-utilized.

GOVERNMENT'S CENTRAL MANAGEMENT SYSTEM

Department of Finance

Timely Completion of Public Accounts

We previously commented on the Public Accounts not being completed on a timely basis. We also made certain recommendations to improve the process.

We previously recommended that the Department of Finance:

- review its procedures for finalizing the annual Public Accounts,
- review the current format of the Public Accounts to eliminate any unnecessary information, and
- consider seconding additional staff during the preparation stage.

Action was taken by Department of Finance officials to attempt to complete Public Accounts on a more timely basis. The report content was reviewed to eliminate redundant information. A revised schedule of the work required to prepare Public Accounts on a more timely basis was developed. Staffing requirements were reviewed and changes made. Certain Crown entities were advised of the need to finalize their financial statements more promptly so that the adjustments required for Public Accounts could be made earlier.

In spite of the actions taken, the Public Accounts still are not being completed on a timely basis.

Our review during the past year identified several matters which contribute to the inability to produce Public Accounts on a timely basis. These include the number of independent systems and the lack of co-ordination among the information systems being used. Information needed to manage the Government and prepare year end financial statements is not being produced when required. Current processes are not efficient and advantage is not being taken of available technology.

At present the General Ledger system does not incorporate the data necessary to produce detailed or summarized financial statements. This contributes to the delay in completion of Public Accounts. Similarly, substantial manual effort is necessary to prepare prospectus information in a different format than that published in financial reports.

Improvements to the system are required to improve the timeliness of Public Accounts and to provide the information necessary for management/financing purposes:

- In most organizations, there are certain types of entries in the accounting records which are required every month, or quarter. Such organizations generally set up a standardized system for recording these types of entries. Standardization ensures that all the entries are recorded and minimizes the administrative effort in processing them. The Department of Finance has not established such a system. As a result, interim and preliminary year-end financial results are not as complete

and accurate as is desirable. This results in a disproportionate amount of work having to be done after the year end.

- General Ledger control accounts are not maintained during the year for accounts such as the "Trust Sinking Funds" and "Custodial Trust Funds". This also results in a disproportionate amount of work having to be done after the year end.

The central system has not been used to generate required information and this resulted in users developing separate manual systems and, recently, separate microcomputers systems to provide management with the required information. However, because these smaller systems do not interface with the central system, they require a data entry function in addition to that maintained centrally, and they necessitate another level of verification and balancing.

Examples of separate smaller systems which currently exist within the Department of Finance which operate on a stand-alone basis are: the trust account management system, the vault security inventory systems and the debt management systems.

The Department has initiated studies to improve its internal reporting systems and plans to improve its internal interim accounting and reporting processes to enhance its operating information to senior officials. This will also help to improve the timeliness of the preparation of data for Public Accounts.

We recognize that the Department of Finance has attempted to assemble the necessary data on a more timely basis. We also recognize that each year there are unusual and complex issues which delay the process. However, this matter is still a concern. The Government's internal operating information and annual results must be available earlier, if the information is to be useful. We recommend that the Department take appropriate action to improve its internal accounting and reporting processes so that the timeliness of Public Accounts can be improved. The action should include a study to identify the information needs of senior officials and the means to meet these needs in an efficient, effective way.

Department of Finance officials have informed us that, although there may be some benefit in this regard from accounting systems changes, they have come to the conclusion that there is a need to reorganize some of the statement preparation responsibilities and to provide more staff to this function. This has become even more important in view of the new standards set for governments regarding the Government reporting entity. Action in this respect has been initiated through the Department's 1989-90 budget process.

We recognize this need and support the Department's actions.

Program Expenditures

In our 1987 report, we expressed concern that Government programs did not reflect the actual level of financial support being provided because central departments were paying certain significant expenditures. We were also concerned that incomplete reporting of program related expenditures weakened the accountability cycle and could lead to

decisions based on incomplete information.

The most significant of these expenditures relate to occupancy costs and staff benefits. Occupancy costs and staff benefits approximate $194 million for the current fiscal year (1987 - $182 million):

- Occupancy costs include leasing costs, janitorial services, expenditures related to capital and grants-in-lieu of taxes. The total of these centralized costs approximate $137 million for the fiscal year (1987 - $134 million).

- Staff benefit costs include employer payments for unemployment insurance, Canada Pension, workers' compensation, disability insurance, dental plan costs, and expenditures for the Government's share of pensions paid to retired civil servants. These staff benefit costs approximate $57 million for the fiscal year (1987 - $48 million) excluding the estimated annual pension benefit of approximately $102 million (1987 - $92 million) earned by Members of the Legislative Assembly, current civil service employees and teachers.

We previously noted that there has been a gradual movement towards more meaningful costing of departmental and Crown agency operations. However, this movement has not been taking place within a planned, overall policy framework.

Action to resolve our concerns has not occurred as yet. It is appreciated that the Government needs to know what these costs are and what they accumulate to for control purposes. It is useful to have this information and be able to allocate these costs on a program basis to the various line departments to appreciate the full costs of the line departments' programs. A review is being undertaken to assess what additional effort would be required to implement our recommendation to allocate occupancy costs. We understand that consideration is also being given to reallocating central costs on an approximate basis to each of the broad expenditure activities shown in the statement of revenue and expenditure. This would represent a step in the right direction, but may not address the matter of improving cost information for decision-making on an individual department and agency basis.

We again recommend that the Government implement a practical policy to allocate or charge-back significant centrally incurred expenditures to the applicable departments and Crown agencies. Steps in this process would include completing the review to determine alternative methods, selecting a practical solution and developing an implementation schedule.

Officials are of the opinion that any systems development undertaken to allocate central costs must be subject to a cost benefit analysis that clearly demonstrates that the benefits derived justify the cost of developing and operating the systems. We agree. We believe much could be done to improve the present situation with information currently available.

Departmental Annual Reports

We previously expressed concern that departmental annual reports were not being used to provide appropriate accountability. To permit a meaningful review and evaluation of

departmental performance, annual reports should be developed on a timely basis and include useful and relevant information. In our opinion, a key is to link departmental plans with departmental achievements in the annual reports. To address these matters, we recommended that the Government provide direction regarding completion dates for departmental annual reports and develop standards regarding the annual report content.

Our concern regarding the timeliness of the release of departmental annual reports still has not been resolved. Most annual reports are not developed and available for review by the public until well over a year after the fiscal year end. Reports received this late are of little use, except from a historical perspective.

We undertook a general review of departmental annual reports in the last year. We found that departmental annual reports generally are not being given appropriate emphasis and require more timely submission. The Civil Service Commission and the Department of Community Services had their annual reports tabled in the Legislature and available to the public within three months of the end of the 1987 fiscal year. Other departments, however, were not timely. We note that only a further eight departments had their 1987 annual reports available to the public prior to March 31, 1988, a full year after the end of the fiscal year being reviewed. Additional departmental annual reports were made available subsequently. In August 1988, five departmental annual reports for the March 1987 fiscal year were still not available. These were the departments of Consumer and Corporate Affairs; Cooperative Development; Environment, Workplace Safety and Health; Finance; and Municipal Affairs.

Our concern regarding the information provided in departmental annual reports has not been resolved. Only limited financial information is provided regarding departmental operations and the basis of presenting this information is not uniform. We expect that departmental annual reports would account for the funds provided to them for their operations. We expect fiscal accountability and performance accountability. For fiscal accountability, we expect actual revenues and expenditures to be compared to estimated revenues and expenditures. For performance accountability, we expect actual performance results to be compared to planned objectives. If there are significant variances between results in either area, we expect variance explanations.

Of the reports examined, most provide a comparison of actual expenditures with amounts approved by the Legislature. The Department of Business Development and Tourism provides only a comparison of expenditures with the preceding fiscal year. The Department of Community Services provides little financial information, and this information is not on a comparative basis. Other departments provide expenditure comparisons with the Estimates and the prior fiscal year. This latter situation enables a reader to compare actual operating expenditure with planned operating expenditures and to assess changes in departmental emphasis. There are similar inconsistencies in reporting departmental revenues. We also noted that only limited operational performance information is being included in departmental annual reports. As a result, a report reader cannot relate departmental operational performance outputs to the intended achievements which were the basis for the resources provided. These performance measures should be used in departmental annual reports to provide accountability regarding the extent to which departmental objectives have been achieved.

GOVERNMENT'S CENTRAL MANAGEMENT SYSTEM

We gave particular attention to the annual reports of the departments of Health, Education and Employment Services and Economic Security. These departments include the larger expenditure operations of the Government. We noted a number of positive things being done to improve their reports. These included reporting of the departments' operations from an overview perspective and identifying individuals responsible for operating performance. The reports of the departments of Health and Employment Services and Economic Security also included references to departmental goals. All three departmental reports made references to progress from the preceding year. The reports included some reporting of service levels provided over a number of years and provided certain quantitative measures of departmental performance. The annual report for the Department of Health included a graphic display of activities over time. In the reports of the departments of Health and Employment Services and Economic Security, we noted references to plans for the future regarding specific segments of the departments activities. These are good, forward moving steps.

However, we also noted some reporting of departmental activities for periods other than the fiscal year. The departments of Health and Education included quantitative information regarding departmental issues based on the calendar and school year, respectively, instead of the fiscal year. The annual report for the Department of Employment Services and Economic Security included variances from the approved Estimates but failed to include explanations of the variances. These were items noted as requiring improvement.

Our overall conclusion is that, while a few departments are making real progress, departmental annual reports generally are not providing the kind of information that is expected and required to demonstrate appropriate accountability to the Legislature and to the public.

Department of Finance support staff are completing a review of departmental annual reports to identify the changes needed to reflect appropriate accountability in departmental annual reports. Once developed, it is intended that the standards will be forwarded to Treasury Board for approval and distribution. We again recommend that the Government priorize action to improve the departmental annual report timeliness and report contents.

Department of Finance officials have informed us that it is the Government's intention to develop and communicate new comprehensive guidelines for the contents of annual reports and to make such guidelines available for the use of departments by fiscal year end. The lead role in this initiative is being assumed by the Department of Finance. Departments will have an opportunity for input through extensive consultation. In the interim, it has been emphasized that full compliance with the directives issued November, 1982 and February, 1985 pertaining to the content of annual reports is required.

Computer Processing Disaster Recovery Plan

Since 1983, we have expressed concern over the lack of a plan to keep essential systems operating if the Government's main computer facility became inoperable. Implementation of a computer processing disaster recovery plan is critical for the Government to maintain essential operations in the wake of a disaster.

GOVERNMENT'S CENTRAL MANAGEMENT SYSTEM

We previously reported that Manitoba Data Services contracted for alternate processing capacity at another site. We also reported that the Information Systems Support Branch of the Department of Finance developed and issued a systems policy document. That policy required line departments to identify and priorize their critical systems. The Information Systems Support Branch was to review the department system plans and develop a long-term strategy document to further address this issue.

A number of departments have implemented or are in the process of implementing a departmental disaster recovery process. These departmental processes will utilize the alternative site contracted by Manitoba Data Services. Although we fully support the approach, we question how the systems will be selected and priorized for access to the available processing capacity in the event of a disaster. This type of priorization should be decided at the highest level. Priorization should not be influenced by which department has the resources or the technical capabilities to implement the process. It should be based on an assessment of need. This is the best way to apply the limited resources to the most critical systems on a practical basis.

An "Information Security Policy" has been drafted for review and approval by Treasury Board. It will provide Departments with a process to follow in developing their disaster recovery plans. An Executive Systems Committee has been set up to establish overall Government processing priorities in the event of a disaster and to give direction in this and other related issues.

We again recommend that this matter be given greater emphasis so that Government operations can continue in the event that the Government's main computer facility becomes inoperable.

Department of Finance officials have advised us that the "Information Security Policy" will be submitted to Treasury Board for approval in the next few weeks. Once approved, it will make Departments responsible for identifying those critical systems that require protection. Departmental submissions will be reviewed by the Executive Systems Committee, whose responsibility it will be to priorize the proposals from a total Government perspective for Treasury Board approval.

Civil Service Commission

Job Evaluation

Last year, under the sub-section Managerial Resources, we reported that the implementation of Pay Equity Legislation resulted in pay adjustments to reduce identified inequities between gender dominated classifications. We also noted that a point rated system was used in the process. We recommended that the Commission conduct a post implementation review of the pay equity project to determine appropriateness of using a point rated system on a more general basis, or classification specific basis, throughout the civil service. We recommended that the Commission's review should result in recommendations, where appropriate, to Government for enhancing the classification practices throughout the civil service.

The Commission is currently considering these recommendations.

GOVERNMENT'S CENTRAL MANAGEMENT SYSTEM

The Civil Service Act indicates that the classification set out in the classification plan shall be based on similarities of duties performed and responsibilities assumed.

The Commission mainly uses a job evaluation process based on a grade description method for classifying jobs. The Commission has also been using a point method for certain series reviews.

We recognize that there are generally two basic processes in place to evaluate the effectiveness of a classification process. The first is a sound, well documented methodology for classifying positions. The second is a strategic plan for the proactive review of position classifications within an organization to determine that jobs remain properly classified. The Commission is implementing proactive reviews of position classifications.

We are aware that point rated systems have been used successfully by other organizations in the Manitoba public sector. We encourage the Commission to review the results obtained by these organizations when evaluating its own classification procedures.

An appropriately applied point method can assist in the process of determining equity in compensation. However, we realize that other factors, such as market conditions and bargaining, impact upon pay levels.

We recommend that the Commission develop a framework for determining the appropriateness of using the grade description or point rated system for classifying positions within the civil service.

The Commission has indicated that it intends to act on this recommendation.

Managerial Resources

Since 1980, we have recommended that an appropriate comprehensive managerial plan be implemented to help ensure sound administration of Government activities, on a long-term basis. Some progress has been made in this area over the last two years.

We reported last year that Cabinet had authorized a steering committee of Deputy Ministers to examine alternatives and proposals for the development and implementation of an executive development program. We also reported that Cabinet had authorized a working committee to develop alternatives and proposals.

A policy for the executive development program has been drafted by the working committee and accepted by the steering committee. The policy has been submitted to Cabinet for approval. Cabinet approval is required before implementation.

We continue to consider the development of an appropriate comprehensive managerial resource management program as an essential ingredient to sound administration on a long-term basis. We recommend that the Government continue this undertaking on a priority basis.

Commission officials advised us that certain aspects of the working committee's report are being implemented. The steering committee is awaiting Cabinet approval prior to full implementation.

Personnel Information System

Since 1984 we have expressed concern about the reliability and timeliness of reports generated by the Commission's central personnel information system. The lack of integrity in the information jeopardized the system and obliged departments either to develop their own comprehensive personnel information system or to supplement the centrally generated reports with reports developed by their own departmental system.

As of November 1987, the Commission had substantially completed a project to upgrade the central system. The upgrade has significantly enhanced the accuracy and timeliness of the central system. We subsequently reviewed the upgraded system with several departments and determined that the system is not being effectively utilized and there has been no movement by departments to eliminate duplicate systems. This duplication of effort results in uneconomic, inefficient operations. Funding used to support these duplicate systems could be put to better use.

For the upgraded system to be fully utilized there will have to be additional effort by Commission staff to explain and promote the new system and educate departments on the capabilities and integrity of the new system.

We are satisfied an appropriate system appears to have been developed to provide reliable and timely information to users. However, since the system is not being used to its full potential, we recommend Commission staff promote the utilization of the system by departments on a priority basis. We further recommend that the Commission establish a plan to demonstrate to departments the utility of its upgraded system and to work towards the elimination of inefficient, duplicate systems.

The Commission has recently initiated steps to bring about acceptance of the system within departments.

Public Accounts Committee

In our previous two reports, we recommended changes to improve the effectiveness of the Standing Committee on Public Accounts. We recommended that the Committee meet on a more timely basis. We also recommended that an outline of questions to be raised at Committee meetings be distributed in advance. In addition, we recommended that the Committee selectively review departmental operations with appropriate senior departmental or agency officials present to respond to questions raised by Committee members.

Last year, we reported that the Committee first met in June 1987 to review the 1986 Public Accounts and our report. This was over five months after the release of Public Accounts and our report. The Committee held its first meeting to review the 1987 Public Accounts and our report on January 26, 1988. This was only one month after the release of Public Accounts and our report, and four months earlier than the preceding year. Assuming the Committee continues to meet on this timely a basis following the release

of Public Accounts, we consider this aspect resolved. Further progress in meeting earlier during the fiscal year depends on Public Accounts being completed more quickly.

We previously recommended that Committee members provide questions they want answered in advance of the meetings. This recommendation was made with the view of increasing the effectiveness of the Committee. A number of questions were provided in advance of the meetings and the Government distributed answers to the questions submitted during the course of the meetings. This represents a good step forward in contributing to the Committee's effectiveness.

In our 1987 report, we recommended the Committee selectively review departmental and Crown agency operations with appropriate senior departmental or agency officials present. We also recommended that these senior officials respond to questions from the Committee about concerns raised in our report or matters contained in departmental or agency annual reports. We consider the adoption of this process would significantly contribute to enhancing accountability and a better understanding of progress being made in resolving reported concerns. Since management is responsible for resolving concerns raised by members or included in our report, it is appropriate for management to update the Committee on the progress of action they are taking. This recommendation was discussed at considerable length by the Committee.

During the discussion, it became clear that Committee members had different perspectives as to how commonly this approach was used in other Public Accounts Committees across Canada. It was also evident that there was no common understanding amongst Members as to how the Committee's mandate compared to other Public Accounts Committee's mandates and the different approaches used to fulfill their mandates.

There is no uniform approach to these matters across Canada. Various jurisdictions have different approaches to providing public accountability and the role in the process of the Public Accounts Committee. The approaches to fulfilling a Committee's mandate are still evolving. To assist with developing a better understanding of where Manitoba stands, the Chairperson of the Public Accounts Committee was requested to provide a written report regarding the mandate and practices of Public Accounts Committees across Canada. This would provide useful input into decisions regarding how the Committee should function in the future to effectively discharge its mandate. We recommend that this matter be pursued. We recommend that information be provided to the Committee so that it can determine whether improvements made in other jurisdictions should be implemented in Manitoba.

GOVERNMENT CONTROL OVER CROWN AGENCIES

Administrative Policy for Crown Agencies

There is a need in the Manitoba public sector for greater consistency of administrative policy among Crown agencies, for a rationalization for significant variances between policies in the civil service and Crown agencies and for a clarification of the responsibilities of various accountability factors in Government. These factors include the Ministers responsible, Boards of Directors, executive management and the Public Investment Corporation of Manitoba.

Crown agencies are instruments of Government policy. They depend to varying degrees on the Consolidated Fund for their operations. The Consolidated Fund provides support through grants, financing and guarantees. By and large, the taxpayer supports these agencies either through taxes paid to the Consolidated Fund or as a ratepayer. As such, it is reasonable to expect that there be relatively consistent policies in place for achieving an appropriate level of accountability. Since administrative policies often have costs associated with them, it is also reasonable to expect that there be a fair degree of consistency in this area. These administrative policies should not vary significantly from those of the civil service without due consideration and documentation of the reasons for the variance.

In past reports, we have identified executive compensation in Crown agencies as an example of administrative policy that contained apparent inconsistencies. We also identified the provision of vehicles to senior executives as one aspect of the compensation package that was particularly inconsistent. We recommended that Cabinet implement an action plan to identify and rationalize significant variations in compensation levels among Crown agencies and between Crown agencies and the civil service. This action plan should also establish a rationale for future adjustments in compensation levels and a process for maintaining consistency in the compensation levels and practices among Crown agencies.

This recommendation has been partially implemented. A study of compensation for chief executive officers of 13 large Crown agencies was completed and salary ranges established. The salaries of 8 of 13 incumbents have been adjusted to be consistent with these salary ranges. In addition, a methodology has been identified for evaluating the performance of the chief executive officers and a standard contract basis developed for chief executive officers.

However, much remains to be done before this issue can be resolved. The salary ranges of the remaining incumbents requires adjustment to the ranges established and the methodology identified for performance evaluation and the standard contract basis have yet to be fully implemented. There are many other Crown agencies which have not yet had the salary ranges for their chief executive officers evaluated. In addition, a rationale for the significant differences in salary ranges between chief executive officers of Crown agencies and deputy ministers has not been established.

There is another aspect of compensation practices to which we would like to draw attention. There is a wide range in compensation practices among the boards of directors of Crown agencies and their chairpersons. We recommend that an action plan be developed to identify and rationalize significant variances in Board member

compensation. Likely, these variances should be consistent with the variations among chief executive officer salaries.

With respect to administrative policies, another inconsistency is in the payment of professional dues. Some Crown agencies permit this practice, while others do not. One agency permits it for employees hired before a certain date but not for employees hired after that date. A further inconsistency is that employees of the Manitoba civil service are not generally permitted to recover their professional dues. We recommend that this aspect of inconsistent administrative practices be reviewed as part of an overall review.

The Government is currently researching alternative methods to improve the accountability of Crown agencies and to achieve greater consistency in administrative policy. The compensation policies and particular administrative inconsistencies identified above will be dealt with in this context. It is expected that recommendations to deal with this complex issue will be adopted prior to March 31, 1989.

DEPARTMENTAL OPERATIONS

Department of Agriculture

Last year we recommended that accounts receivable monitoring and collection procedures be improved. We also recommended that the Department take appropriate action to resolve the overdue accounts receivable pertaining to the Beef Producers Income Assurance Plan. We further recommended that the Department's audit committee co-ordinate the efforts of the Department and the Manitoba Agricultural Credit Corporation (M.A.C.C.) to resolve these old outstanding accounts. Efforts were made by the audit committee during the year to deal with this issue, however, it could not be finalized because of changes in administration.

There has been no change in the status of these delinquent accounts during 1988. The $360,000 owed to the Department from the Beef Producers Income Assurance Plan as at March 31, 1988, represented approximately 150 accounts. This amount is unchanged from the prior year and is composed of $297,300 in principal receivable from the beef producers and $62,700 in interest charged on these accounts up to August 1981. These amounts have been outstanding in excess of seven years. No interest was charged on these accounts since then. Using annual interest rates prevailing at August 1981 and annually thereafter, we estimate that non-collection of the amounts receivable has cost the Government in excess of $325,000 to March 31, 1988.

A review was made by the Department during the current year to assess and categorize each of these overdue accounts as to collectibility. As a result of this review, administrative recommendations were made. However, no decision was made by the Department on whether to pursue collection of these overdue Beef Producers Income Assurance Plan accounts or to write them off.

In addition to these accounts receivable in the Department of Agriculture, M.A.C.C. has related overdue loans receivable. These loans arose when the Corporation lent money to farmers in the Beef Producers Income Assurance Plan, to repay their Plan accounts with the Department of Agriculture. As at March 31, 1988, a total of 44 loan accounts were outstanding from this program, totalling $129,458, including accrued interest of $16,201 (1987 - 47 accounts totalling $123,190, including accrued interest of $15,206). The only collection efforts undertaken by the Corporation on these accounts during 1988 was to mail periodic statements of account to the borrowers. Both the Department of Agriculture's Beef Producers Income Assurance Plan accounts and the M.A.C.C. loan accounts are receivables which arose through the previous disbursement of public funds. The respective officials of the Department and M.A.C.C. are responsible for taking appropriate actions to resolve these old outstanding accounts. Such action is warranted to preserve and protect public funds and to maintain equitable treatment with those farmers who met their obligations and repaid their accounts.

We again recommend that appropriate action be taken by the Minister and officials of the Department and M.A.C.C. to resolve the delinquent Beef Producers Income Assurance Plan accounts and loans receivable.

DEPARTMENTAL OPERATIONS

Department of Business Development and Tourism, and Department of Industry, Trade and Technology

For the last three years we reported that the financial management systems for these two Departments were ineffective. The Departments shared a single Finance and Administration Branch.

An action plan was developed in August, 1987, by the then new Director of Finance and Administration to deal with recommendations to significantly improve the Departments' financial management systems by March 31, 1988. This plan was approved by both Departments.

Progress was made during the past year towards implementing the approved action plan, especially in the area of comptrollership. The Director of Finance and Administration was not able to fully implement the approved action plan because his efforts were directed to divide the existing Finance and Administration function and establish one for each of the two Departments so that each would operate independently. Subsequent to March 31, 1988, the two Departments were amalgamated into the Department of Industry, Trade and Tourism. The effect of this development on the amalgamated Department's operations will have to be carefully evaluated in attending to the above concerns. A revised action plan is being developed for the new Department of Industry, Trade and Tourism. This plan will identify specific areas in which improvements are still required in the Department's financial management functions.

We also reported previously that neither the Department of Industry, Trade and Technology nor the Department of Business Development and Tourism, had an internal audit function. This is contrary to Government policy which requires that departments have this function to carry out systematic reviews and appraisals of departmental operations.

The Finance and Administration Branch was allocated an extra staff year for the establishing of an internal audit function in 1987. The efforts made to separate the Finance and Administration functions contributed to the delay in establishing this function. Both Departments were interested in establishing internal audit functions and this further complicated the decision of how to resolve this matter. The position was not filled pending a decision on the merger of the two Departments. Now that the two Departments have been merged, however, the establishment of this function will be given a high priority. It is anticipated that the internal audit position will be filled within the next few months.

We recommend that the amalgamated Department continue its efforts to implement the recommendations to strengthen the Department's financial management systems as soon as practicable. We also recommend that the new Department establish an internal audit function as soon as possible, particularly since an internal auditor may be able to assist management in improving its financial management systems.

DEPARTMENTAL OPERATIONS

Department of Community Services

For a number of years we have expressed concerns that the Department's management control and monitoring responsibilities were not being carried out effectively. We also reported that the Department was taking steps to address and resolve our concerns. Since our last report, the Department has continued its efforts to strengthen its controls and monitoring capabilities. Outstanding claims regarding Treaty Indian child welfare billings have been resolved. In addition, progress has been made in developing and implementing the commitment accounting system and developing an automated subsidy payment system for the child day care program. Progress has been significant in certain areas, as is indicated below.

a) Automated Commitment Accounting System

During the year, the automated commitment accounting system was implemented in the Community Social Services Regional Offices, Administration Branch and Finance Branch. The system is expected to be implemented in most of the major branches in the year ending March 31, 1989.

b) Child and Family Services Information System

This system is being developed by the Department for implementation at the agency level. This system will provide information to the Child and Family Services Division which will increase its ability to monitor, on a timely basis, delivery of services by external agencies. Phase 1 of the system has been developed and installed in Child and Family Services of Western Manitoba and Child and Family Services of Winnipeg West. However, the plan to install the system in the other external agencies has been temporarily put on hold by the Department pending resolution of some operational and equipment issues outstanding with Manitoba Data Services and the Department of Finance. The Department indicated that the plan is to proceed with implementation of the project in the remaining agencies in 1989/90 and is recommending a speed-up of the system development and implementation.

c) Child Day Care Automated Subsidy Payment System

This system is being developed to enhance the process of paying Manitoba Day Care services rendered. The system has been developed and installation commenced in April 1988.

Further efforts, however, are necessary for the Department to fulfill its management control and monitoring responsibilities. Specific matters requiring further attention include:

- improving Departmental monitoring of external agencies accountability covering the use of public funds, service delivery, standards of service and case loads

- completing implementation of the Department's commitment accounting system so that the Department would have better current financial information for managing its operations and ensuring legislative expenditure authority is not

exceeded

- instituting improved procedures for billing and claiming Treaty Indian child welfare costs

- completing the negotiations between the Department of Indian and Northern Affairs and the Government of Manitoba and Indian agencies regarding Treaty Indian child welfare and signing the resulting tripartite agreement

- completing the implementation of the plan for an automated information system to monitor service delivery in the Child and Family Services section of the Department and

- completing implementation of an automated subsidy payment system for the child day care program to monitor and verify billings, and to calculate payments.

As indicated above, some action has been taken towards resolving our concerns in the last three years. Although progress is being made, the progress is slower than we expected. We note that the Department still has not established a comprehensive timetable to resolve our concerns. We therefore recommend our concerns be given special emphasis and that a timetable for corrective action be established.

The Executive Committee of the Department is working to establish a timetable to resolve the matters affecting various areas of the Department. While a number of initiatives are currently underway to address the issue of comptrollership, special emphasis will be given to resolve the concerns outlined in this report.

Department of Culture, Heritage and Recreation

Last year we expressed concern with the basis of financial reporting of the Department's operations in Public Accounts. Our concern resulted from the fragmentation in financial reporting of departmental activities in the Government's revenue and expenditure statements.

Our concern with the current reporting results from different reporting requirements for lottery funds compared to funds voted in an appropriation by the Legislature. The financial transactions associated with lottery funds are not included with the appropriation transactions in the Government's Public Accounts. The lottery funds arise from the transfer of net proceeds of specified operations of The Manitoba Lotteries Foundation, at Government direction, to trust fund accounts that the Department can use for specific purposes. The specific purposes for which the Department may expend these trust funds include administration and grants associated with cultural, heritage and recreational programs. There is now no requirement for the Department to transfer the lottery funds from the Foundation to the Operating Fund division of the Consolidated Fund of the Government. This had previously been the case, but as we reported last year, The Manitoba Lotteries Foundation Act was amended to remove this necessity.

Since the Government controls and regulates lottery operations in a similar fashion to the way liquor operations are controlled, these funds could be properly viewed as part of the

Consolidated Fund. In addition, the usual fiduciary responsibilities associated with a trust relationship does not exist for these funds.

As a result of reporting the Department's expenditures in both the operating and trust funds, the Government's financial statements in Public Accounts do not combine the Department's total expenditures. To obtain a complete understanding of the extent of the Department's financial operations and expenditures, a reader must combine the expenditures reported in the Department's appropriations with the expenditures charged to the trust funds. In our opinion, this is inappropriate.

For the year ended March 31, 1988, the Department spent $16.4 million through lottery trust accounts (1987 - $9.1 million) and the Department spent $18.9 million (1987 - $20.6 million) through its appropriation. Section 5 of volume 1 of Public Accounts includes the departmental transactions processed through the lottery trust accounts and section 4 of volume 1 of Public Accounts includes details of payments made from appropriations.

We recognize that this fragmentation in financial reporting is not limited to this Department. Expenditures are also made from lottery trust funds made available to the Department of Health. Expenditures of approximately $6.7 million were made out of the Department of Health lottery trust funds during the fiscal year ended March 31, 1988. The Department's appropriation spending for this fiscal year was in excess of $1.3 billion. The significance of the resulting fragmentation is substantially less in the Department of Health as compared to the Department of Culture, Heritage and Recreation. Accordingly, we have reported this additional concern here and not as a concern in the Department of Health.

We recommend that appropriate procedures be put in place so that the lottery transactions currently processed through trust fund accounts are included in the revenues and expenditures in the Government's annual financial statements.

Department of Education

For several years we have recommended action to eliminate the inequity to education financing resulting from a significant delay between the dates school tax levies are collected by municipalities and the due dates for remittance to school divisions and The Public Schools Finance Board. The system resulted in a net subsidy to municipalities at the expense of education financing.

In January 1988, the Government announced plans to amend the regulation governing the remittance of school tax levies. In September 1988, the regulations were amended to provide for remittance of school tax levies to school divisions and The Public Schools Finance Board on or before:

- the end of the month following the month in which the taxes were due, where a municipality receives payment of taxes before the due date,

- the end of the month following the month in which the taxes were paid, where a municipality receives payment after the due date and

- January 31 in the year following the year in which the taxes were levied, for the balance of the education levies.

This action should result in a timely transfer of funds to education financing.

Department of Finance

The Corporation Capital Tax Act requires that interest be charged on all late payments received from taxpayers. This requirement, however, is not being met by the Department. Interest on late payments is charged against problem accounts where:

- an audit assessment has been generated or
- collection procedures have begun.

However, interest is not charged to other accounts when taxes are received after the due date. Accordingly, the Department does not comply with The Corporation Capital Tax Act regarding these accounts. If interest is charged on only certain late payments, taxpayers are not treated equally and the Government is losing revenue, although not large in amount.

We recommend development of the proposed computer procedure to charge interest on all late payments be given priority attention.

Officials of the Department have informed us that development of a computer procedure to calculate interest automatically has been delayed in part due to the loss of programming staff. A new programmer was recently hired and assigned to the task of completing this project as soon as practicable.

Department of Municipal Affairs

As a result of our review of the Department's operations for compliance with legislation, we noted that the Department is not complying with Section 34(1) of The Municipal Assessment Act. This section requires that all property within municipalities be assessed at least once every 5 years. The Department provides this service to municipal corporations and is presently assessing property once every eight to nine years.

As a result of this non-compliance, assessments may be inequitable within municipalities and between municipalities. This could result in inappropriate taxes being billed to taxpayers and inappropriate requests for grants-in-lieu of taxes to the Provincial and Federal governments and their Crown agencies. There have been cases of assessment principles before the courts. It follows that there could be litigation from taxpayers because of problems arising from this non-compliance.

The Department is taking action to resolve this matter. A new computerized assessment system is currently being developed by the Department. Officials of the Department indicate that, subject to funds being voted by the Legislature, the new computerized assessment system is expected to be fully operational by 1991. The new system is being

implemented in two phases. The first phase, covering land assessments, is expected to be operational in late 1989. This will be followed by development of the building phase projected for completion in 1991. Once developed, the new system is expected to provide efficiencies to Departmental operations. This time saving should result in sufficient resources to permit assessments to be made within the time period specified by the Act.

We recommend the Department deal with this concern on a priority basis to bring about compliance with legislation as soon as practicable.

Department of Northern Affairs

Last year we reported concerns regarding the operating level of certain of the department's management practices. In particular, we noted that the Department's planning, reporting and comptrollership practices required improvement. Good management practices within departments are essential to the overall effectiveness of Government.

Last year we reported that planning had not progressed much beyond the Department's role and mission statement. Since our previous report, the Department made limited progress in improving its planning practices. It expanded its initial role and mission statement and it also completed a needs assessment and defined major Departmental objectives.

The Department still needs to develop detailed results statements identifying key Departmental responsibilities, goals and objectives. These results statements should identify the key results expected, their measurement criteria and performance indicators. This will allow the Department to establish a clear link between planning and budgeting and to develop annual operational plans for each organizational unit with targets and milestones. The Department also still needs to identify alternative strategies, evaluate the alternatives and select the best strategies or mix of strategies. Once a strategy has been selected, the Department can develop appropriate long-range plans, allocate resources on a more informed basis and work towards development of more appropriate operating plans. A further step will be to communicate the results statements to Departmental managers and staff.

We also reported that the Department needed to enhance its management reporting practices. There has been no improvement in this situation in the past year. The management reporting still requires significant improvement. Management would benefit from having better information for its decision-making and from having an improved ability to track key result expectations. Better internal reporting would also enable the Department to be in a position to evaluate and report on its accomplishments, thereby providing an appropriate level of public accountability for the funds approved by the Legislature.

The Department also needs more effective comptrollership over its operations. Last year we identified certain internal control weaknesses and slowness in correcting known concerns as examples of deficiencies in Departmental operations. We also noted deficiencies in monitoring the operations of a regional office. In addition, we noted

deficiencies in the Department's grant accountability procedures and the Department's staff performance appraisal system. During the past year, the Department resolved certain of the internal control weaknesses reported last year. Monitoring the operations of a regional office, grant accountability procedures and the performance appraisal system still require additional effort.

In addition, a number of improvements are required in the Department's operation of The Northern Affairs Fund. The matters requiring improvement pertain to the Fund's tax roll and to grant accountability.

The Department still has not established an internal audit function. The establishment of an effective internal audit function would assist the Department in its operations. An effective internal audit could identify performance measurement weaknesses, standards which require development or deficiencies in operations which require management attention. The above-noted deficiencies illustrate issues where internal audit could assist the Department in its monitoring and evaluation processes.

We again recommend that the Department improve its planning, management reporting and its comptrollership practices. We also recommend that the Department establish an internal audit function.

Department officials have informed us that they are committed to placing greater emphasis on planning and are continuing their review of their planning practices. After this review, the Department intends to improve its management reporting practices. The responsibilities and reporting relationships of senior Departmental officials are being revised as are certain accounting procedures to strengthen comptrollership. Senior officials advised us that the internal audit issue is presently being considered by the Deputy Minister.

Given the limited progress in resolving these concerns during the past year, we recommend that special emphasis be given to these matters so that they are resolved as soon as practicable.

Various Departments - Overexpenditure

Last year, we again expressed concern regarding departmental overexpenditure of legislative authority. We reported sixteen instances, affecting twelve departments, where expenditures exceeded the approved legislative spending authority.

We indicated that action was being taken to resolve departmental overexpenditures. During the 1988 fiscal year, the Minister of Finance advised each department of his concern regarding departmental overexpenditures. He emphasized the importance of managers controlling their operations. He urged departments to review their commitment controls and directed departments to take the steps necessary to ensure that overexpenditures were not incurred again this year. This action was partially effective since overexpenditures have been reduced both in the number of appropriations involved and amount.

DEPARTMENTAL OPERATIONS

For the fiscal year ended March 31, 1988, there were nine instances affecting seven departments where expenditures exceeded the approved legislative spending authority. The total of these overexpenditures approximate $2.2 million (1987 - $4.0 million). These overexpenditures have been charged to departmental appropriations for the fiscal year ending March 31, 1989 and paid as Late Accounts.

The following schedule lists the authorities that were exceeded for the fiscal year ended March 31, 1988.

Department/Program	Unexpended as at March 31/88	Late Accounts to August 31/88	Over Expenditure
Legislation			
Other Assembly Expenditure	$ 5,022	$ 41,958	$ 36,936
Elections Manitoba	1,052	509,359	508,307
Attorney-General			
Criminal Justice	1,939	180,806	178,867
Consumer and Corporate Affairs			
Corporate Affairs	13,316	91,437	78,121
Culture, Heritage and Recreation			
Telecommunications Policy	41	92	51
Education			
Program Development Support Services	11,675	146,427	134,752
Expenditures Related to Capital	2,215	3,150	935
Employment Services and Economic Security			
Economic Security	758,398	1,984,497	1,226,099
Government Services			
Supply and Services	35,969	118,978	83,009
Total for the fiscal year ended March 31, 1988			$ 2,247,097
Total for the fiscal year ended March 31, 1987			$ 4,046,122

As indicated by the above schedule, the action taken to March 31, 1988 has not eliminated over-expending legislative authority. Further effort is required.

Where departments foresee that expenditures will be incurred in excess of the existing legislative authority, departments are expected to approach Treasury Board sufficiently early so that the additional required authority may be obtained. Although the total overexpenditure is small in relation to the Government's overall operating budget, we report this matter because it reflects non-compliance with legislative authority. We consider legislative approval to be an important control. As a result, we consider overexpenditures of legislative authority to be a serious matter. The overexpenditures

also indicate that departmental monitoring and commitment control systems are not alerting management at the appropriate time of the need to take action to prevent the overexpenditures.

We again recommend that steps be taken to minimize departmental overexpenditures.

In addition to the above-noted instances where overexpenditures resulted from payments in excess of approved legislative authority limits, five other instances occurred as a consequence of accounting policy changes adopted in developing the Government's annual financial statements. These five instances of expenditures in excess of legislative authority arose from additional accruals being charged to Government appropriations at the end of the fiscal year. These instances and the related accounting policy changes are explained in Note 14-2B of the Government's annual financial statements.

AGENCY OPERATIONS

Communities Economic Development Fund

We have reported for three years that there were deficiencies in the Fund's management practices, including the documentation and monitoring policies and procedures for loans. Sound management practices are required to maintain the high standard of accountability expected from any organization which lends public funds. Clear policies for documentation of loan activities, and consistent adherence to these policies are required to reduce the risk of errors in judgement and identify potential loan recovery problems for corrective action on a timely basis.

On October 7, 1988, the Minister of Finance directed the Provincial Auditor to conduct a special audit of the Fund. The objectives of the special audit are:

- to determine whether management of the Fund has taken effective action to resolve the concerns identified in our Report to the Legislative Assembly for the year ended March 31, 1987, and;

- to determine whether recent concerns identified with respect to operations of the Fund are based on substance or are unfounded.

The Board has taken certain actions as a result of the initiation of this special audit. It has withheld approval of the annual financial statements pending the findings of the special audit. The Board and the General Manager agreed that the General Manager would relinquish his position as General Manager. Immediately, thereafter, an Acting General Manager was appointed.

Because this special audit is underway, we are unable to provide definitive comments about the Fund in this Report to the Legislature. We can advise that all the concerns identified last year have not yet been resolved. However, we also wish to report the actions that have been taken to improve operations. The Board has approved the operations manual developed last year. Management has developed an action plan to address the concerns in our prior year's report and a business plan to complement the action plan. Management consultants also reviewed the Fund's operations and made a number of recommendations for improvement. Management is currently developing an action plan to address the management consultants' recommendations. Management believes that these actions will depend, to some extent, on the results of current union negotiations. The Government also appointed new members to the Fund's Board of Directors. The appointments were made to strengthen the Board. Management provided the new Board members with orientation sessions.

We will be including the results of the special audit in our Report to the Legislature for the year ended March 31, 1989.

Manfor Ltd.

Manfor has continued to experience improvements in its operating results. For the year ended December 31, 1987 the profit amounted to $3.3 million (for the year ended December 31, 1986 the Company experienced a $5.3 million loss). The accumulated

deficit at December 31, 1987 was $125.2 million.

Although the Corporation's operating results have improved, our primary concern continues to be the Corporation's inability to generate sufficient funds to replace its plant and machinery. The Corporation will require substantial sums in the future for plant and equipment replacement to maintain its operations. At the present time, there is no reliable indication that the Corporation's operations will ever be able to generate the funds required to replace the plant and machinery.

Last year, we recommended that Manfor Ltd. continue its efforts to improve its management practices, especially in the areas of long-range planning, budgetary procedures, costing and financial information systems.

The Board and management have made significant progress in improving its budgetary procedures and costing systems. Further work is still required however in the areas of long-range planning and the financial information systems. In 1987 the Company implemented a computerized general ledger system and is currently planning the implementation of other computer applications. These changes are expected to assist in the realization of further improvements to the budgeting process and to the financial information system.

The Government is pursuing the divestiture of Manfor Ltd. Pending a decision on the divestiture, we recommend that the Company continue its efforts to improve its management practices.

Manitoba Beef Commission

In previous reports, we have expressed our concerns over the long-term viability of the Commission and its ability to repay advances received from the Government. For several years we recommended that the Commission develop a long-range plan which provides a realistic approach to the goal of self-sufficiency and the repayment of the advances from the Government.

Since our last report, significant progress has been made in addressing these matters. In December 1987, a long-range plan providing for repayment of Government advances was completed and approved by the Beef Commission's Board. This plan incorporated a policy change by Government to assist the Commission in achieving self-sufficiency. The Government has now formalized arrangements to fund the earned forgiveness of producer deficits arising out of a regulation under The Farm Income Assurance Plan Act. The long-range plan developed in December 1987 indicates that the Commission is not expected to require grants from the Government beyond this funding of producer deficits.

We had previously recommended that the Board be provided with regular reports on the achievement of long-range goals. Quarterly reports are now being provided to the Board, apprising them of actual results in comparison to results forecast in the long-range plan. We had also recommended that the Commission formalize the agreement to fund the earned forgiveness on the producer's deficit balances. An order-in-council was issued in early 1988, formalizing the agreement.
These actions, in conjunction with improved market conditions in the beef industry, have

considerably reduced our concerns over the Commission's long-term viability. Since March 31, 1987, the Commission has repaid $10 million in advances from the Government. Total advances outstanding and repayable to the Government, as at March 31, 1988, are now $23.5 million (March 31, 1987 - $33.5 million). The accumulated deficit of the Commission has been reduced by $8 million, from $28 million as at March 31, 1987 to $20 million as at March 31, 1988.

The Beef Commission has made appropriate progress in dealing with our concerns. Currently the Commission is reviewing and revising its long-range plan to reflect more recent developments and plans for the Commission's future activities. We recommend that the Beef Commission continue its efforts towards achieving long-term viability and self sufficiency.

Manitoba Development Corporation (MDC)

General

We previously recommended that MDC develop a policy for recovering costs incurred on certain programs undertaken as agent for the Government under Part II of The Development Corporation Act. Recovery of these costs is required by the Act. Costs which MDC estimated at $100,000 annually, totalling $300,000 from 1985 to 1987, have not been recovered by MDC. These costs have, in effect, been absorbed by MDC and funded from Part I.

MDC budgeted for, and made additional recoveries under Part II in the year ended March 31, 1988. However, the basis for estimating the additional recoveries is incomplete and arises from a cursory review by management.

We continue to have a concern with the completeness and accuracy of the cost allocation process. This concern relates both to the allocation of costs between Part I and Part II operations of MDC and between MDC and the Communities Economic Development Fund (CEDF). MDC and CEDF share staff and facilities. The basis used for cost allocation has not been rationalized by means of a careful analysis and documentation of the activities of the employees relative to the two organizations and relative to Parts I and II of MDC. Such a rationalization should result in the development of an effective and practical costing system. It should first deal with the issue of cost definition. For example, one significant cost which is not recorded in the accounts is the cost of pension entitlements earned by employees. We believe that this cost should be included in the cost allocation process. We recommend that a rationalization of costs be done, that a process for reviewing the cost allocation basis annually be adopted and that the Boards of Directors of both organizations review and approve the newly rationalized cost allocation policy. We also recommend that an action plan be developed by management, and monitored by the Board, to facilitate the resolution of this issue.

Flyer Industries Limited Divestiture

Effective July 15, 1986, Flyer Industries Limited was sold to BV Carrosseriefabriek den Oudsten en Zonen. MDC's most recent estimate of the overall net cost of the divestiture to the Government is $109 million (1987 estimate - $103 million). Approximately $101

million of these costs has been incurred as of March 31, 1988 and a further provision for approximately $8 million has been recorded in MDC records to cover future costs. The increase in the estimate of the overall net cost of the divestiture is mainly due to increases in warranty costs.

The Pas Forestry Complex - Receiver

The Receiver's activities concerning The Pas Forestry Complex are substantially complete. However, certain third party proceedings with respect to the settlement still require resolution and, contrary to the understanding a year ago, it has not yet been possible to proceed to apply to the Court for discharge of the Receiver. The Receiver has been advised by Counsel that he expects to proceed to a resolution of the outstanding matters in the very near future.

A summary of the Receiver's accounts for the fiscal years ended September 30, 1987 and 1986 is presented below as a matter of information:

	September 30 1987	1986
Receipts:		
Interest income	$ 20,305	$ 25,823
Disbursements:		
Funds due to Manfor Ltd.	-	154,077
Receiver's operating expenses	3,024	-
	3,024	154,077
Receipts over (under) disbursements	17,281	(128,254)
Funds on hand, beginning of year	276,722	404,976
Funds on hand, end of year	$ 294,003	$ 276,722
Cash in bank and term deposits	$ 65,368	$ 48,087
Funds on deposit with Minister of Finance	228,635	228,635
Funds on hand, end of year	$ 294,003	$ 276,722

Saunders Aircraft Corporation Limited - In Receivership

The receivership of Saunders Aircraft Corporation Limited has been finalized. The MDC placed Saunders Aircraft Corporation Limited into receivership on May 20, 1976. Over the years, we have provided a summary of cash transactions and other pertinent data from that date.

AGENCY OPERATIONS

A summary of the receipts and disbursements covering the entire receivership period is as follows:

	May 20/76 to March 20/87 (reported last year)	March 21/87 to June 1/88 (subsequent transactions)	Total
Funds on hand and receipts:			
Funds on hand May 20, 1976	$ 26,173	$ -	$ 26,173
Receipts:			
Funds provided mainly for payment of liabilities and for working capital by:			
Manitoba Development Corporation	351,184	-	351,184
Government of the Province of Manitoba	176,942	-	176,942
	528,126	-	528,126
Proceeds from sale of assets	1,819,177	-	1,819,177
Collection of accounts receivable outstanding May 20, 1976	1,219,105	75,000	1,294,105
Aircraft leasing and other income	198,487	-	198,487
Interest income on surplus funds, net	463,979	4,383	468,362
Other	3,037	-	3,037
Total	$ 4,258,084	$ 79,383	$ 4,337,467
Disbursements:			
Funds transferred to the Government of the Province of Manitoba:	$ 1,591,567	$ 182,851	$ 1,774,418
Payment of liabilities outstanding May 20, 1976	557,519	-	557,519
Salaries, wages and benefits	360,501	-	360,501
Insurance premiums	533,436	-	533,436
Receiver's fees, legal and other professional costs	602,897	10,907	613,804
Other operating costs	497,489	300	497,789
Total	$ 4,143,409	$ 194,058	$ 4,337,467
Receipts over (under) disbursements	$ 114,675	$(114,675)	$ -

AGENCY OPERATIONS

All funds held by the receiver-manager have been transferred to the Government. The Court has approved the accounts and the receiver-manager has been discharged.

Manitoba Public Insurance Corporation

Last year we reported that we had carried out two special audits of the Corporation, one in 1986 and the other in 1987. We followed up on the actions taken in response to the recommendations of these two special audits.

The 1986 audit addressed certain allegations. Last year, we reported that all but two concerns arising from our audit work had been resolved. The first concern was the need for a policy to control refunds on auction sales of vehicles to prevent any possible abuses. The second concern was the need for a personnel official to participate in the hiring and promotion process for in-scope staff.

An appropriate policy to control refunds on auction sales of vehicles has been implemented. A review of current personnel hiring procedures revealed that there is now appropriate participation by the personnel department in the hiring and promotion process for in-scope staff.

The 1987 audit pertained to the Corporation's reinsurance operations. The special audit indicated that management practices were not appropriate to preserve and protect public funds. The special audit identified significant concerns and resulted in recommendations regarding the reinsurance management cycle.

Effective November 18, 1987, the Corporation discontinued writing reinsurance assumed business. The Corporation is closing off the reinsurance assumed book of business that was on hand at November 18, 1987. The Corporation's discontinuance of writing reinsurance assumed business resolved a number of our concerns. The Corporation has also taken action on most of our recommendations and has a plan in place to address the remaining recommendations.

Manitoba Research Council

Improvements are required to the Manitoba Research Council's (MRC) financial information system and certain aspects of its management practices.

We acknowledge that management has been making a concerted effort to resolve many of these concerns, but much needs to be done before these aspects of operations can be considered to be operating at an appropriate level.

MRC was established to promote and carry on research and scientific enquiries respecting agriculture, natural resources, industry or other segments of the economy of the Province of Manitoba. Another of its goals is to secure for Manitoba the benefits of research and scientific enquiries carried on elsewhere.

In carrying out its work, MRC conducts some activities which are funded directly by the Province of Manitoba and other activities which are intended to be self-supporting. The

latter are usually research contracts in which MRC agrees to carry out a project for a fee.

In this environment, it is essential for MRC to have an effective and accurate financial information system. Such a system would enable MRC to demonstrate more clearly that the fee for service activities are self-supporting and that funds provided by the Government are not being used to subsidize losses in the fee for service area. MRC does not have an effective financial information system. Management has been attempting to develop such a system for several years without success. We recommend that the action plan receive increased emphasis for timely resolution and that regular progress reports be provided to the Board of Directors. This action plan should provide for the development of an appropriate costing system in the shortest practical time.

In addition to the financial information system, there are other matters in the project control process that need further attention. Specifically, the flow of information on project cost overruns is not always functioning at an appropriate level. As a result, timely management action to deal with cost overruns is not always taken. Management is aware of one fee for service project that had lost approximately $168,000 up to March 31, 1988 based on MRC's chargeout rates covering direct and overhead costs. MRC recently renegotiated terms of the contract that will recover all direct costs and a small portion of overhead. However, without an adequate project costing system we are not able to audit this information. There may be other projects that are not fully recovering all overhead costs. In our view, this situation illustrates the need for renewed effort toward bringing the financial information system to an appropriate level. We recommend that MRC adopt more stringent requirements for the flow of key financial information to the appropriate decision makers.

We have been advised that the Board has recently approved two new policies to improve control and to redefine approvals related to contract overruns, contract extensions and out-of-province contract activities. As a result of these new policies, the Board will be informed on a routine basis of any contracts which incur overruns.

There is also a need for improvements in certain of MRC's management practices and procedures. This includes administrative and research project management, together with policy and procedure documentation. During the past year, MRC developed a long-term strategic plan which included strategies to become 60% self-sufficient by March 31, 1991. However, the Council is constrained in implementing this plan until it receives direction from Treasury Board as to the recommended approaches to self-sufficiency. We recommend that the Government and MRC work more closely together to achieve an agreed role and mission and strategic vision for MRC.

Action on the long-range goals of MRC, together with improvements of its financial information systems and management practices is essential to bring the operations of MRC to an appropriate level. The Board and management have recently taken a number of steps to address these issues and have indicated a strong determination to resolve them as soon as practicable.

AGENCY OPERATIONS

MTX Telecom Services Inc.

Last year, we reported on the status of the wind-down of MTX Telecom Services Inc.(MTX), the wholly owned subsidiary of the Manitoba Telephone System(System). The wind-down has been proceeding in an orderly manner.

In our report for 1987, we indicated that only one major project, U.S. Sprint, still did not have a settlement finalized for its wind-down. This settlement has now been finalized.

It is noted that none of the events occurring between March 31, 1987 and December 31, 1987 required any adjustment to the provision for loss recorded in the financial statements of the System. As the wind-down is not yet complete, a determination of the final costs of MTX cannot be made at this time.

A number of smaller issues still remain to be resolved. Officials are working toward the resolution of the remaining issues as quickly as practicable. Final dissolution is expected to occur in the latter part of 1989.

Public Trustee's Office

The Public Trustee's Office (PTO) acts on behalf of persons affected by various disabilities, age and death. For certain of its operations, the PTO is considered to be an appointment of last resort, providing a public service. The magnitude of its operations is indicated by the fact that in the year ended March 31, 1988, the PTO processed in excess of $33 million in receipts on behalf of approximately 5,000 estates and trusts.

The PTO is in a particularly sensitive position of public trust. It has carried out its fiscal responsibilities well under trying circumstances. Over the past two years the assets under the administration of the Public Trustee have grown approximately 19% to a total of approximately $92 million. We believe action is required to improve internal controls at the PTO to enable that Office to continue to meet its responsibilities with its increased workload.

We believe that a stronger comptrollership function at the PTO is essential. An effective comptrollership function provides increased assurance of probity in the handling of an organization's transactions. It accomplishes this through its role in designing, implementing and monitoring systems of control. The person fulfilling the comptrollership function usually relates to other managers in the organization with respect to control and systems issues and acts as an important ingredient in promoting a good level of control consciousness. This person is also in a unique position to provide early warnings to executive management of inappropriate situations which require attention.

Our audit has identified a number of required control improvements which are indicative of the need to strengthen the comptrollership function. These include improving controls over the monitoring of client income and certain other financial monitoring procedures, improving controls over the processing of trust disbursements, the registering of chattels and the recording of assets in the accounting records, improving staff training and improving the documentation of key procedures. There is also a need to consider

increased computerization of processes for increased efficiency in processing and for improved disaster recovery procedures.

In November, 1987, a report arising from an operational review of the PTO was issued by the Planning, Research and Evaluation group in the Department of the Attorney General. The conclusion of this review is, in part, as follows:

> The PTO has been through a long period of extensive growth during which time there has been social change affecting its disabled clientele and an aging population which adds further difficulty to its case management responsibilities.
>
> During this period, available resources to meet this growth have remained relatively constant and all efforts have been consumed in meeting the immediacy of day to day demands.
>
> It now appears that a period of rejuvenation is in order. Implementation of automation, the addition of staff resources, development of staff training programs and greater delegation of management functions will provide the needed emphasis for renewal.
>
> It is recognized that these recommendations require significant new resources in a period of severe restraint and priority setting. The requirements which have been outlined are considered as a necessary addition to the existing dedicated and well qualified staff of the Public Trustee's Office.

The detailed recommendations in this review are supportive of our concern that steps be taken to strengthen the comptrollership function. Recently, Treasury Board accepted the recommendations of the operational review and has approved certain additional resources for the PTO. We recommend that the PTO incorporate these additional resources into an action plan for strengthening the comptrollership function and for addressing the recommendations of the operational review.

Universities Grants Commission

In previous reports, we indicated that The University of Manitoba provides computer services to other post-secondary educational institutions and the Department of Education through a computer services network. We expressed concern that The University of Manitoba may be subsidizing the operations of other post-secondary educational institutions through the provision of computer services below cost.

Our report last year indicated that the University of Manitoba had advised the Commission that it intended to withdraw from the computer services network, effective March 31, 1988, if new arrangements could not be agreed upon.

The Commission, The University of Manitoba and the other members of the computer services network have established new contractual arrangements for the provision of computer services through the computer services network. These arrangements have satisfactorily dealt with our concern.

AGENCY OPERATIONS

Workers Compensation Board

Since 1983, we have reported that the operations of the Workers Compensation Board are not in compliance with The Workers Compensation Act. The Board is required by its Act to assess each year employers in each Class Fund rates sufficient to meet all amounts payable as a result of accidents during the year. We are aware that there is some ambiguity as to the elements to be included in such amounts. The Class G Fund, representing the general body of employers assessed under the Act, has had annual deficits on the year's operations since 1981 and has been in a deficit balance since 1984.

We also reported that since 1983 the Board has identified and recommended significant increases in assessment rates to fund the Board's operations, but, to date, appropriate increases in assessment rates have not been approved by the Government. We again stress that failure to charge appropriate assessment rates may result in an unfair burden being placed on employers or the general public in future years. In our view, this is contrary to existing legislation and has created a serious problem that should be resolved in a timely manner.

Last year we indicated that the Legislative Review Committee, appointed by the Government to review the compensation system in Manitoba, issued its report in June, 1987. We recommended that action be taken as soon as practicable to bring the activities of the Board into compliance with legislation and to adopt a sound fiscal policy for funding the Board's operations.

For the most recently completed fiscal year, the year ended December 31, 1987, the annual report of the Board indicates that the Class G Fund incurred a deficit of $11.3 million, increasing the accumulated deficit in that Fund to $95.6 million.

The Government has taken certain action to address these concerns. An Implementation Team for Workers Compensation Reform was established in September 1987 to advise the Minister on matters relating to proposed reform recommended by the Legislative Review Committee. The Implementation Team expects to complete its work by early 1989, including overseeing the drafting of a new Workers Compensation Act for presentation to the Legislature. The Government has also indicated its intention to provide funding of $16.4 million to the Board. This funding relates to foregone interest resulting from Government action in previous years in setting inappropriately low assessment rates. The Board is actively working with the Implementation Team to develop appropriate recommendations to Government. In particular, the Board is aware that the deficit reported in its 1987 annual report is significantly less than would be reported if accounting policies similar to the insurance industry were followed. The Board intends to adopt, on a retroactive basis, improved accounting policies in its annual report for the year ended December 31, 1988 to address this issue.

We again recommend that action be taken as quickly as practicable to bring the activities of the Board into compliance with legislation and to adopt a sound fiscal policy for funding the Board's operations.

PUBLIC ACCOUNTS - TRENDS AND COMMENTS

General Comments

Information on the Government's financial position and its operating results is published annually by the Government of the Province of Manitoba. This information is known as Public Accounts. The purpose of reporting is to communicate information that is relevant, timely, clear and developed on the basis of accounting policies consistently applied.

Although the financial reporting practices for governments are similar to those of commercial enterprises, there is a substantial difference in the underlying goals between government and commercial enterprises. Earning a profit is an important objective of commercial enterprises. Government, however, does not have this objective. Its objectives include providing public services and redistributing wealth to meet various social and economic purposes. In addition, in commercial enterprises there is a serious, overriding attempt to match the expenses incurred in a period with the revenues earned during that same period. This matching is important partly because share values are directly affected and shareholders may buy or sell shares based upon current reported results. As a result, interperiod accounting is most important in commercial enterprises. Governments have taxation powers and have the ability to raise taxes to meet expenditures. Taxes may not be raised when expenditures are incurred and as a result deficits may be incurred. Deficits must be paid for from future taxes. In governments, while interperiod accounting is important, it has usually been most important over a longer term, the term of a government or between generations. Accordingly, the relationship between revenues and costs for Government has not been the same as it is for commercial enterprises. Understanding these differences is important.

Public Accounts are developed to meet the requirements of The Financial Administration Act. The Public Accounts are to be prepared to show the state of the public debt; the state of the Consolidated Fund; and such other accounts and matters as are required to show what the liabilities and assets of the Government are at the end of the fiscal year. These requirements deal with accounting for and reporting on the financial condition of the Government. Under the Act, the Public Accounts must include a statement of expenditures and revenues of the Government for the fiscal year; a statement of such assets and liabilities of the Government as are required to show the financial position as of the end of the fiscal year; a statement which reflects the changes in financial position of the Government during the fiscal year; a statement of accumulated deficit or surplus as of the end of the fiscal year; a statement of any change in accounting policies from those followed in the preceding fiscal year; such other statements as the Minister deems necessary; and a report of the Provincial Auditor concerning the examination of the Public Accounts. The additional statements the Minister deems necessary traditionally have included explanations and certain financial information supporting the financial statements. This financial information contributes to providing accountability over the Government's use of public funds.

For the year ended March 31, 1988 the Government implemented a change, from reporting only on the operating and trust funds of the Consolidated Fund, towards reporting on a broader basis. Volume 1 of the Public Accounts reports on the Consolidated Fund financial statements, being the operating fund (section 1) and trust

fund (section 5).

Volume 3 includes summary financial statements which reflect the consolidation of the operating fund division of the Consolidated Fund and the financial operations of Manitoba Properties Inc. (MPI) and its related holding companies. This transition represents an initial step toward implementation of the recommendations of the Public Sector Accounting and Auditing Committee's Statement 4. Statement 4 recommends consolidation as the most appropriate method of accounting for organizations integral to the overall operations of Government. The only difference between the operating fund financial statements in volume 1 and the summary financial statements in volume 3 is the consolidation of MPI. However, in our view this initial effort is a positive step.

The state of the Government is disclosed on a broader basis in the summary financial statements in volume 3 of the Public Accounts as the total excess of liabilities over financial assets and similar items (accumulated deficit). At March 31, 1988 the accumulated deficit was $4,878 million (1987 - $4,214 million).

The state of the operating fund division of the Consolidated Fund is disclosed in the financial statements included in volume 1 of the Public Accounts. The total excess of liabilities over financial assets and similar items (accumulated deficit) at March 31, 1988 was $4,461 million (1987 - $3,804 million).

As noted above, the difference between the accumulated deficits arise as a result of the consolidation of MPI in the summary financial statements in volume 3.

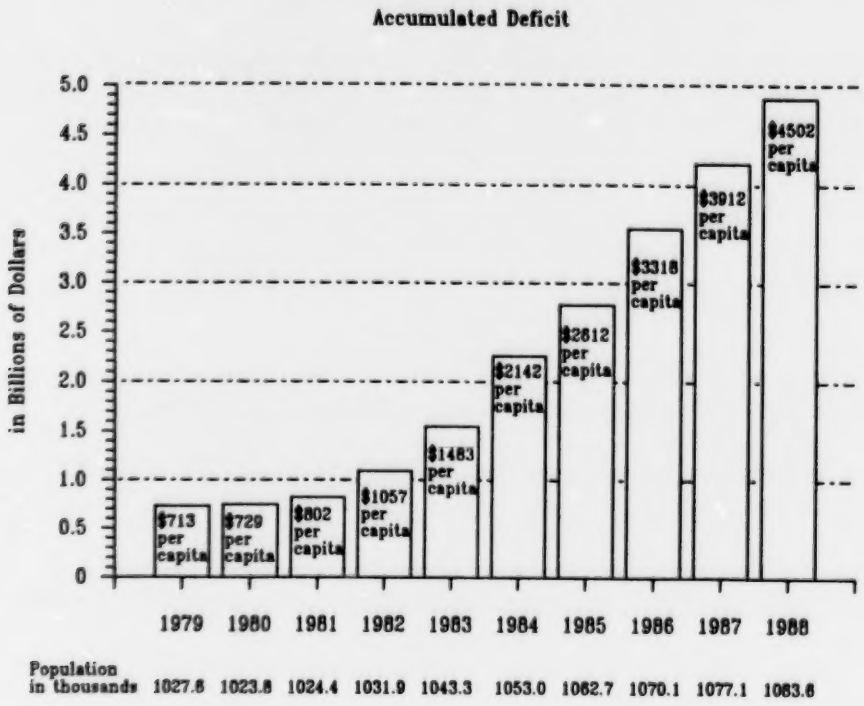
The summary financial statements for the year ended March 31, 1988, are reproduced in Exhibits 9 to 15 of this report.

To help a reader understand the summary financial statements in volume 3 of the Public Accounts and their limitations, we provide the following additional information.

PUBLIC ACCOUNTS - TRENDS AND COMMENTS

Accumulated Deficit

The accumulated deficit (excess of liabilities over financial assets and similar items), as shown in the following graph is $4,878 million at March 31, 1988. This has increased by $4,145 million or 566% since March 31, 1979. The accumulated deficit per capita at March 31, 1988 is $4,502. This is an increase of $3,789 per capita or 531% since March 31, 1979. This is illustrated in the following graph.



The accumulated deficit increased by $664 million during the past year, from $4,214 million at March 31, 1987 to $4,878 million at March 31, 1988.

Manitoba's population figures used throughout this section are those reported by the Manitoba Bureau of Statistics as at April 1 of each year.

PUBLIC ACCOUNTS - TRENDS AND COMMENTS

The increase in accumulated deficit is attributed to the following *(in millions of dollars):*

Deficit for the year	$ 306
Prior year adjustments:	
Amortization of foreign currency fluctuation	222
Valuation allowance increases	137
Criminal Injuries Compensation Board	13
A reduction in serial debentures of school divisions and districts	(14)
	$ 664

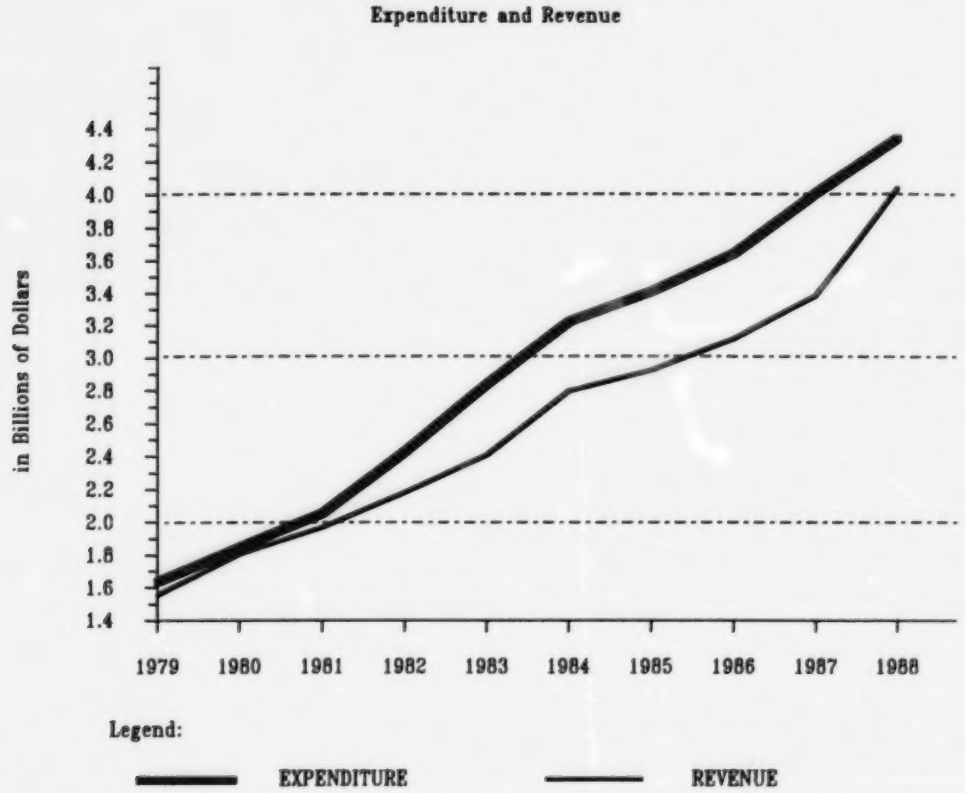
The accumulated deficit arises through changes in its two components - liabilities and financial assets. The changes in the two components on the summary financial statements during the year ended March 31, 1988 are set out below *(in millions of dollars):*

Increases (decreases) in liabilities:	
Borrowings	$ 1,054
Unamortized foreign currency fluctuation	293
Provision for foreign currency fluctuation on Manitoba Hydro Debt	(86)
Amount owing to the Trust Funds	272
Accounts payable, accrued charges and deferred revenue	(22)
Liability increase	1,511
Less increases (decreases) in financial assets:	
Loans and advances:	
Crown corporations, agencies, boards and commissions	600
Other governments	(1)
Other	(17)
Long-term investments	16
Valuation allowances	(146)
Cash and equivalents	357
Accounts receivable	38
Financial asset increase	847
Accumulated deficit increase	$ 664

PUBLIC ACCOUNTS - TRENDS AND COMMENTS

Expenditure and Revenue

A graph of the expenditures and revenues of the Government of the Province of Manitoba for the ten fiscal years ended March 31, 1988 is set out below. The 1987 figures have been restated to reflect the increases in valuation allowance and Crown corporation losses as expenditures consistent with the 1988 presentation.

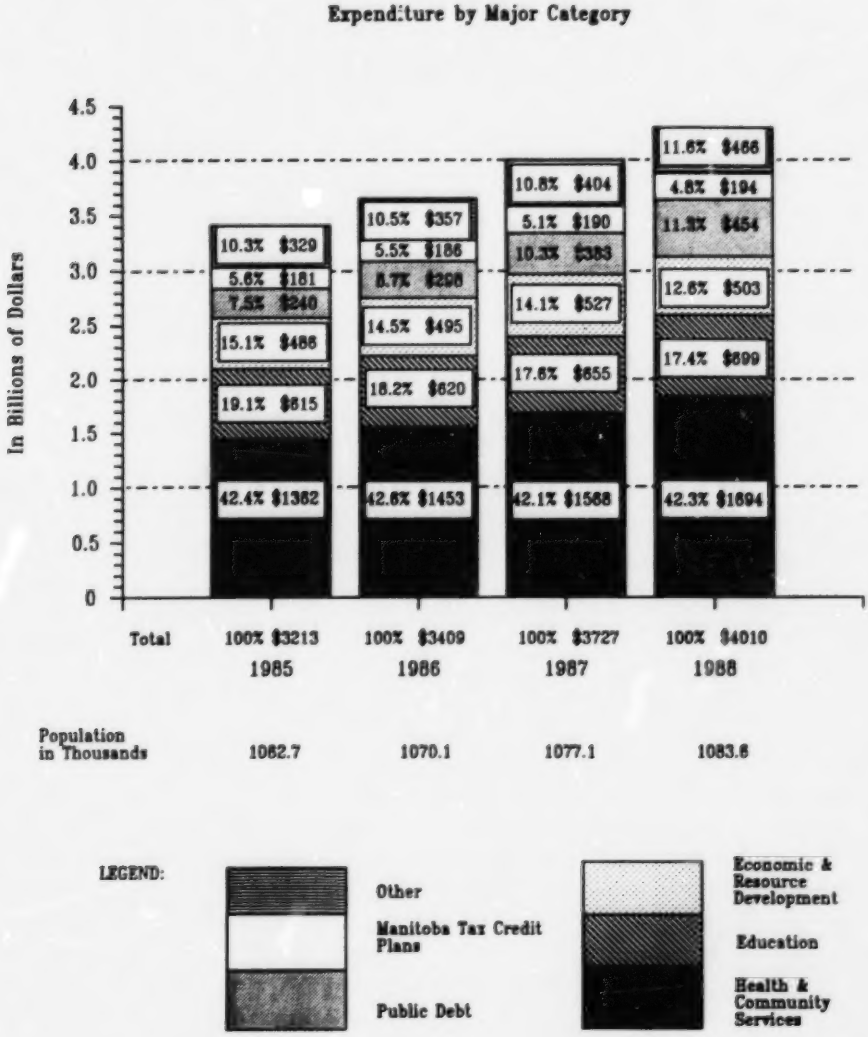


This graph highlights the fact that, for all the years included, expenditures have exceeded revenues. It also indicates that, except for the 1988 fiscal year, the growth in revenue has not kept pace with the growth in expenditure since 1980. Prior to the change in accounting policy made in 1988, expenditures did not include the annual valuation allowance adjustments and extraordinary expenditures. These adjustments were previously charged directly to the Government's accumulated deficit. Changes were made to the accounting policy regarding valuation of loans and advances and long-term investments in preparing the 1988 financial statements. Valuation allowance adjustments and extraordinary expenditures were included in the Government's 1988 expenditures and restated retroactively for 1987. The effect of this change in policy on the above graph has been to increase 1988 expenditures by $21 million.

PUBLIC ACCOUNTS - TRENDS AND COMMENTS

Expenditure by Major Category

The following graph presents expenditure information by major category, as a percentage of total expenditure and on a per capita basis.



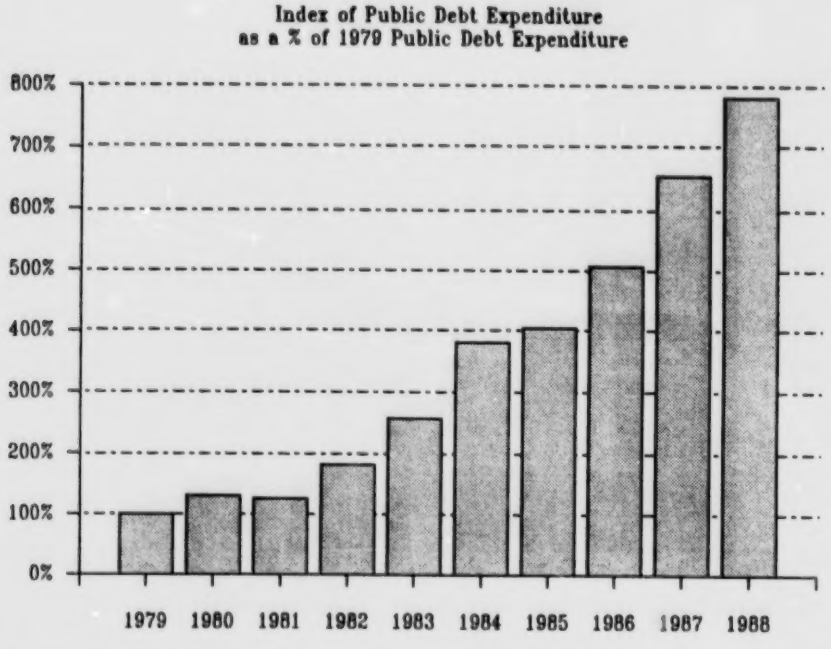
The expenditure graph shows that the percentage of public debt expenditures to total expenditures has been increasing at a much faster rate than other major expenditures.

The percentage of Manitoba tax credit plan expenditures has been decreasing over the last four years. The percentages of education expenditures and of economic and resource development expenditures have also been steadily decreasing since 1985.

PUBLIC ACCOUNTS - TRENDS AND COMMENTS

Public Debt Expenditure

Public debt expenditure, excluding hydro rate stabilization, has increased almost eight times over 1979, from $63 million in 1979 to $492 million in 1988. This is illustrated in the following graph.



It is important that public debt be managed within the ability of the Government to service its borrowings. To assist with this, long-term financial projections are required. These projections will assist the Government in developing spending plans in an appropriately priorized manner. Priorized plans will also facilitate development of the Government's expenditure estimates and expenditure control initiatives. Only through the development and distribution of long-term financial projection information, can a meaningful review of the Government's present and intended management of its public debt expenditure be undertaken by the Legislature.

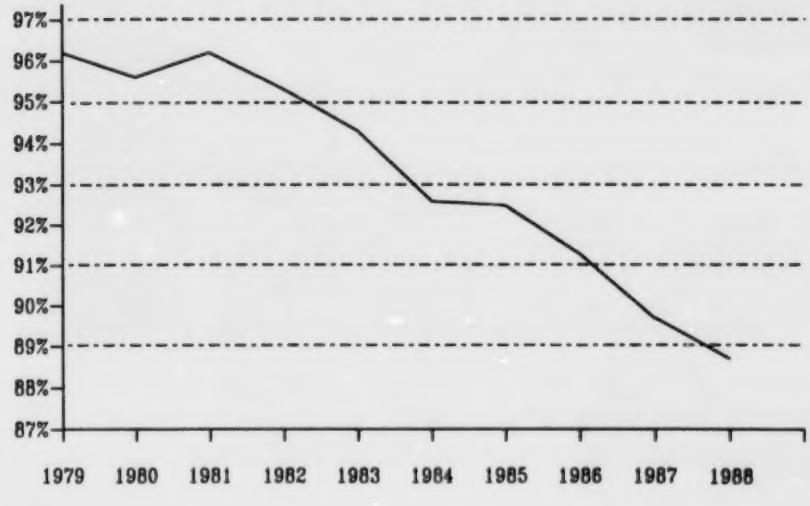
As public debt expenditure becomes a larger component of the Government's expenditure, it becomes increasingly important to monitor the Government's debt obligations. Because of changes in international economic conditions, the suitability of international borrowing may be different than when the international debt was initially arranged. The Treasury Division of the Department of Finance has become more active in recommending changes to its existing borrowings as a result of these opportunities.

PUBLIC ACCOUNTS - TRENDS AND COMMENTS

The Government's spending flexibility has decreased over the past 10 years. This decrease is shown by the smaller proportion that expenditures, other than those relating to public debt, are to total Government expenditures. The following graph reflects this trend over the ten fiscal years 1979 to 1988 inclusive.

Decrease in Spending Flexibility

Expenditures excluding Public Debt Expenditures as a % of Total Government Expenditures



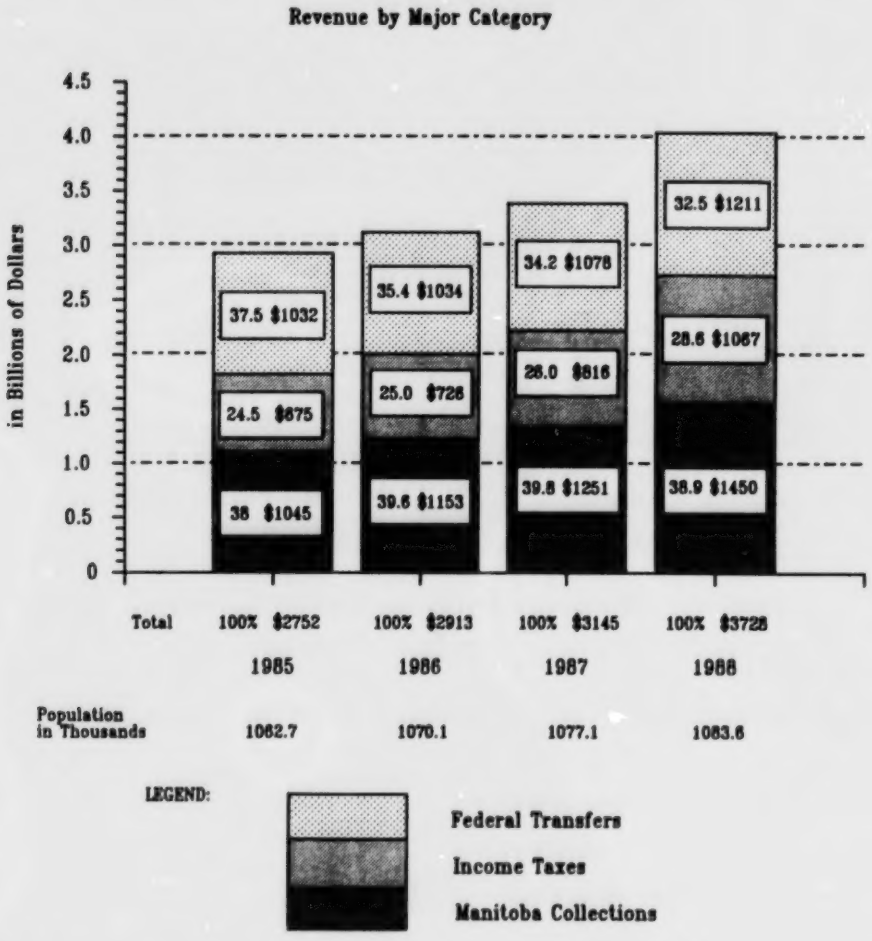
In 1979 expenditures other than public debt amounted to over 96% of total expenditures. However, in 1988 these expenditures have decreased to under 89%.

The Financial Administration Act provides statutory authority to charge expenditure appropriations with amounts required to meet the Government's annual debt charges. As a consequence, separate legislative authority is not required. The above graph highlights the relative decline in those expenditures that the Legislature controls.

PUBLIC ACCOUNTS - TRENDS AND COMMENTS

Revenue by Major Category

The following graph presents revenue information by major category, as a percentage of total revenue and on a per capita basis.



The graph shows that federal transfer payments, mainly being equalization and established programs cash transfers, as a percentage of total revenues have been decreasing steadily over the last four years while income taxes have been increasing.

PUBLIC ACCOUNTS - TRENDS AND COMMENTS

Combined Direct and Guaranteed Public Borrowings

In addition to direct public borrowings, the Government has guaranteed public borrowings issued by Government agencies. Guaranteeing these entities borrowings is an alternative to direct Government borrowings and lending the funds to the entities. Included in the guaranteed borrowings are amounts which are essentially the same as direct borrowings because the borrowings are serviced from the Consolidated Fund. The figures for March 31, 1987 have been retroactively restated in accordance with the 1988 change in accounting policy for translation of foreign currency, using the March 31 rates of exchange. The Province's direct and guaranteed borrowings are presented below for information purposes *(in millions of dollars):*

	March 31		Increase
	1988	1987	(Decrease)
Direct borrowings	$ 10,320	$ 9,021	$ 1,299
Guaranteed borrowings	1,552	1,696	(144)
	11,872	10,717	1,155
Less:			
Sinking funds re:			
Direct borrowings	1,295	1,055	240
Guaranteed borrowings	263	273	(10)
Unamortized debt issue costs	44	39	5
	1,602	1,367	235
Total	$ 10,270	$ 9,350	$ 920

The direct and guaranteed public borrowings net of sinking funds and unamortized debt issue costs per capita were $8,288 and $1,191 respectively (1987 -$7,360 and $1,321, respectively).

The combined direct and guaranteed public borrowings, net of sinking funds, debentures issued under financial assistance agreements and unamortized debt issue costs are summarized below by sources of servicing *(in millions of dollars):*

	March 31		Increase
	1988	1987	(Decrease)
Serviced from:			
Consolidated Fund:			
Fully re:			
General purposes	$ 4,763	$ 4,192	$ 571
Manitoba Properties Inc.	399	399	-
	5,162	4,591	571

PUBLIC ACCOUNTS - TRENDS AND COMMENTS

	March 31 1988	1987	Increase (Decrease)
Partially re:			
Caisses Populaires	4	-	4
Emergency Interest Rate Relief Program	9	9	-
Energy Conservation Loan Fund	13	3	10
Manfor Ltd.	115	115	-
Manitoba Agricultural Credit Union	214	210	4
Manitoba Beef Stabilization Fund	28	38	(10)
Manitoba Data Services	-	2	(2)
Manitoba Hog Income Stabilization Plan	-	2	(2)
Manitoba Housing and Renewal Corporation	108	106	2
Manitoba Jobs Fund	155	135	20
Manitoba Mineral Resources Ltd.	8	8	-
Manitoba Oil and Gas Corporation	14	15	(1)
Tourism Agreement	1	1	-
University of Manitoba	4	5	(1)
Venture Manitoba Tours Ltd.	3	3	-
Other	1	2	(1)
	677	654	23
Total serviced from the Consolidated fund	5,839	5,245	594
Other funds:			
Manitoba Hydro-Electric Board	3,715	3,417	298
Manitoba Telephone System	737	702	35
Manitoba Water Services Board	15	16	(1)
Other	8	9	(1)
Total serviced from other funds	4,475	4,144	331
	10,314	9,389	925
Less: Unamortized debt issue costs	44	39	5
	$ 10,270	$ 9,350	$ 920

The borrowings or direct debt of the Province is shown in the summary financial statements - statement of financial position and schedule 5. The debt issued by Crown corporations, agencies, boards and commissions and guaranteed by the Province is shown in the summary financial statements, note 6.

PUBLIC ACCOUNTS - TRENDS AND COMMENTS

Loans and Advances

Loans and advances are funds that the Government provides to Crown corporations, agencies, boards and commissions for Government programs. These funds are raised through borrowings. The loans and advances are repayable and generally are interest bearing at the rate the Government borrows the funds.

Total loans and advances increased by $600 million to $3,569 million at March 31, 1988, from $2,969 million at March 31, 1987. The March 31, 1987 loans and advances have been restated to reflect the amortization of foreign currency fluctuation.

An overview of the net increase in the loans and advances to Crown corporations, agencies, boards and commissions, net of sinking funds is as follows *(in millions of dollars):*

	March 31		
	1988	1987	Increase
Loans and advances	$ 3,720	$ 3,101	$ 619
Less:			
Sinking funds of Crown agencies on account of debt incurred by the Province	151	132	19
	$ 3,569	$ 2,969	
Net increase			$ 600

An analysis of the net change of $600 million, by agency, is as follows *(in millions of dollars):*

Agency	Loans and Advances	Less: Sinking Funds	Net Change
Manitoba Data Services	$ 3	$	$ 3
Manitoba Development Corporation	(6)		(6)
Manitoba Energy Authority	(2)		(2)
Manitoba Housing & Renewal Corporation	53	1	52
Manitoba Hydro-Electric Board	525	17	508
Manitoba Telephone System	36	1	35
Other	10		10
	$ 619	$ 19	$ 600

Loans and advances to Crown corporations, agencies, boards and commissions are reflected in the summary financial statements - statement of financial position (net of sinking funds) and schedule 2.

PUBLIC ACCOUNTS - TRENDS AND COMMENTS

Long-Term Investments

The majority of the Province's long-term investments consist of shares and debentures of Crown corporations. The total long-term investments as reflected on the summary financial statements - statement of financial position and schedule 3 increased by $16 million from $158 million at March 31, 1987, to $174 million at March 31, 1988.

An overview of the net change of $16 million in long-term investments is as follows *(in millions of dollars):*

	Increase
Common shares	
Manitoba Oil and Gas Corporation	$ 5
Manitoba Hazardous Waste Management	1
Profit sharing agreement	
Hudson Bay Mining and Smelting re: Ruttan Mine	10
	$ 16

Valuation Allowance

A valuation allowance is a provision for a change in the estimated realizable value of Government loans, advances and long-term investments. When it is determined that a particular asset has a value less than the recorded value, an allowance is set up against that asset so that the net amount reported in the financial statements for that asset equals the estimated value.

The valuation allowance provided against loans and advances and long-term investments increased during the year by $146 million, from $52 million at March 31, 1987 to $198 million at March 31, 1988. A comparative summary highlighting the allocation to expenditure and accumulated deficit is as follows *(in millions of dollars):*

	March 31	
	1988	1987
Opening balance	$ 52	$ 187
Net increase charged to appropriations	19	50
Write-off of assets against valuation allowance	(10)	-
Net increase (decrease) relating to prior years adjustment, charged to the accumulated deficit	137	(185)
Closing balance	$ 198	$ 52

Details of the valuation allowance are reflected in the summary financial statements - statement of financial position, schedule 2 and schedule 3.

PUBLIC ACCOUNTS - ACCOUNTING POLICIES, PRESENT AND FUTURE

1988 Accounting Policy Changes

Over the past several years, the Government made significant improvements in its financial reporting in Public Accounts. Further significant improvements in accounting policies were made for the March 31, 1988 Public Accounts. These improvements included the implementation of important aspects of accrual accounting. Accrual accounting reflects the Government's financial condition and operating results in a more meaningful manner.

The Government contracted with a firm of management consultants to review existing accounting practices and to provide recommendations regarding accounting policy changes and valuation adjustments that should be made. The consultants assisted the Government in revising its accounting policies. The Government released the consultant's report to the public. We are generally supportive of the accounting policy changes.

The following paragraphs provide further information regarding the changes made in preparing the 1988 Public Accounts.

The Government revised its accounting policy regarding the translation of foreign currency denominated debt to Canadian dollars. This affected the resulting recognition of the unrealized foreign currency fluctuation. The March 31 exchange rates have been used for the translation and valuation of year end foreign currency balances. Previously, all foreign currency balances were converted and disclosed at historic values.

This change to the March 31 exchange rate improves the disclosure of the Government's liability with respect to its foreign borrowings by providing a more current valuation than the previous historic rate method. The result is an increase in the carrying value of borrowings outstanding at March 31, 1988 of $1,004 million (1987 - $999 million) over the historic value. The unamortized portion of the resultant fluctuation is presented on the statement of financial position as an offset to liabilities and is described in note 4 to the summary financial statements.

In addition, the amortization of foreign currency fluctuation is now based on the March 31 exchange rate. Previously, the average of the exchange rates that were in effect during the calendar year just ended and the preceding two years had been used. An adjustment of prior years has been recorded through the excess of liabilities over financial assets in the amount of $205 million. The 1988 amortization of foreign currency fluctuation charged to public debt expenditures was reduced by $12 million from what would have been recorded under the previous policy. The public debt expenditures for 1987 and prior years have not been restated.

The change to the March 31 exchange rates also affected the accrual of interest payable and interest receivable in foreign currency and the amortization of debt issue costs. The impact of these changes was a further adjustment to prior years charged to the excess of liabilities over financial assets of $17 million and an increase in 1988 public debt expenditures of $2 million. The 1987 and prior year public debt expenditures have not been restated.

PUBLIC ACCOUNTS - ACCOUNTING POLICIES, PRESENT AND FUTURE

A change in the amortization policy was also implemented during the year. In situations where debt is called for redemption prior to maturity and refinanced with another issue of debt, the original debt is valued at the exchange rate in effect at the date of redemption. The difference between this value and the amortized book value of the original debt is to be amortized over the term of the replacement issue unless the remaining term of the original issue is one year or less. If the remaining term of the original issue is one year or less, the difference is fully amortized in the year of redemption. This policy applies to the first replacement issue only. If further replacement issues are involved, the unamortized fluctuation is expensed over the term of the first replacement issue only. Under the previous policy, debt called prior to maturity would have required an immediate recognition of the difference through public debt expenditures. During 1988, foreign currency differences on debt called prior to maturity amounted to $13 million and will be amortized to public debt expenditures over the remaining term of the replacement debt.

There are two types of transactions involved: those which are a renegotiation of an existing debt, and those which are a cancellation of previous debt with its replacement with new debt.

In our view, the accounting policy adopted for amortizing unamortized exchange gains and losses existing from called and reissued debt is appropriate, except in situations where the new debt results from other than a renegotiation of the terms of the original debt and the term of the reissued debt is greater than the remaining term to maturity of the called debt issue. In these situations, we recommend that any unamortized exchange gains or losses existing at the time the debt is called be amortized over no longer a term than the remaining term of the original debt.

The Government also revised its accounting policy regarding the valuation of loans and advances and long-term investments held by the Government. The purpose of this change in accounting policy is to recognize, on a timely basis, any significant deterioration in the ability of the entities to whom the Government has provided funds to repay their obligations. As a result of this change in policy, any deterioration in the financial position of the entities which affects their ability to repay their loans provided, are charged to expenditure in the fiscal year that the deterioration first becomes evident. Previously, such changes in the valuation allowance were to be charged to expenditure in the fiscal year following the determination. The effect of this change in policy was to charge $21 million to 1988 expenditures which would have been charged to 1989 under the previous policy.

The Government changed its policy to recognize unfunded liabilities existing at the Criminal Injuries Compensation Board. Previously, these liabilities were recognized as cash was disbursed. Under the revised policy, the Government recognizes its liability for the cost of awards for continuing financial support in the fiscal year the award is made. The effect of this change in policy amounts to $15 million. This has been recorded as a prior-year adjustment to the excess of liabilities over financial assets of $13 million and an increase in the Government's expenditure of $2 million for the fiscal year ended March 31, 1988.

PUBLIC ACCOUNTS - ACCOUNTING POLICIES, PRESENT AND FUTURE

The Government changed its policy to recognize the losses incurred by the Manitoba Public Insurance Corporation on its reinsurance assumed activities to March 31, 1988 and the unlikely financial recovery of the Corporation's General Insurance Division personal and commercial insurance deficit to October 31, 1987. The purpose of this change in policy is to reflect in Public Accounts the unprofitable operations of the Corporation and the Government's obligation for these losses. The effect of this change in policy is to charge $59 million as an extraordinary expenditure on the statement of revenue and expenditure and increase the Government's accounts payable by an equivalent amount.

The Government also changed its policy to recognize the accumulated impact of the estimated interest foregone by the Workers Compensation Board as a result of previous Government direction in the years 1983-1987 which limited the assessment increases proposed by the Board. The purpose of this change in policy is to recognize the Government's obligation arising as a result of Government decisions affecting the Board. The effect of this change in policy is to charge $16 million as an extraordinary expenditure on the statement of revenue and expenditure and increase the Government's accounts payable by an equivalent amount.

The Government changed its policy on the reporting entity. As previously commented on in this report, the Government consolidated the operation of Manitoba Properties Inc. and its related companies with the operating fund in its summary financial statements.

The significant accounting policies of the Government are set out in Exhibit 15 of this report. Changes in the Government's accounting policy are set out in section IV of the application of accounting policies in Exhibit 15 of this report.

Accounting Policies - Moving Towards the 1990's, An Overview

The Public Sector Accounting and Auditing Committee (PSAAC) of the Canadian Institute of Chartered Accountants has committed significant resources to developing a framework of general accounting standards applicable to the preparation of federal and provincial government financial statements. This has resulted in the development and finalization of recommendations including:

- disclosure of Government accounting policies,
- objectives of Government financial statements and
- general standards of financial statement presentation for governments.

We have determined that further action by the Government is required to fully comply with existing PSAAC recommendations. PSAAC recommends that financial statements should:

- "report a government's liabilities at the end of the accounting period segregated by main classifications, such as: accounts payable and accrued liabilities; employee pension obligations; borrowings; and loans and advances from other governments."

The only outstanding item is reporting of employee benefit liabilities. Reporting of employee pension liabilities is currently limited to including information in the notes to the financial statements. Further Government action is awaiting PSAAC issuing recommendations regarding accounting for employee pension costs by governments. The Government's financial statements are also incomplete regarding the accrual of liabilities regarding other employee benefits.

- "disclose information to describe a government's acquired physical assets on hand and available for use by the government at the end of the accounting period."

  Because PSAAC is only at a preliminary stage of reviewing this issue, the Public Accounts do not address this aspect of financial reporting as yet.

- "disclose the gross amount of expenditure" and "disclose the gross amount of revenue".

  Generally, Public Accounts follow this recommendation because the financial statements are developed to coincide with the basis of developing the Government's Estimates. Current accounting practices, however, result in two inconsistencies with this recommendation. First, recoveries from Crown corporations and agencies regarding debt servicing and income earned on long-term investments and advances are not included in gross revenues, but are recorded as a reduction of public debt expenditure. Second, the municipal share of individual and corporation income taxes, which is paid to municipalities in accordance with the existing tax sharing agreement, is not recorded as Government revenue.

  Information is available and could be included to meet this requirement. Current accounting policies of the Government covering these issues are disclosed in the notes to the Government's financial statements.

- "present any information required for the fair presentation of a government's financial condition and results of operations."

  The summary financial statements included in volume 3 of Public Accounts now reflect the consolidation of Manitoba Properties Inc. (MPI) with the operating fund financial statements. These summary financial statements reflect transactions with other Crown entities only to the extent that the Government provides operating funds through an appropriation and to the extent that the Government lends or invests in Crown entities and Crown entities make repayments of their obligations. They do not reflect the results of the operations of the other Crown entities owned or controlled by the Government and for which there is accountability to the Legislature, except for the special conditions in the Manitoba Public Insurance Corporation and the Workers Compensation Board. Further Government action on this recommendation is awaiting finalization of PSAAC standards for defining the Government reporting entity.

- "be issued on a timely basis."

  As indicated in the Government's Central Management System section of this report, Public Accounts are not yet prepared on a timely basis.

Government action is still required for Public Accounts to reflect fully the financial condition and operating results of the Consolidated Fund in accordance with PSAAC's existing recommendations.

A number of significant specific issues are currently being reviewed by PSAAC. Two specific projects, defining the Government reporting entity and accounting for employee pension obligations by governments, are nearing finalization. In addition, accounting for physical assets is currently being researched.

As PSAAC develops accounting policies and financial statement disclosure standards for governments, changes in the Government's financial statements will be appropriate.

Accounting Policy Changes Still Required

Employee Pension Benefits

This is the tenth year in which our annual Report to the Legislative Assembly includes comments of concern regarding growing liabilities for employee pensions and increasing annual pension costs. In the early years, our remarks were primarily explanatory. As the Government's pension costs and the related liabilities have continued to grow, we have become increasingly concerned by the failure to recognize the annual costs for employee pension benefits earned by Government employees during the year in determining the Government's annual net operating results. The Government provides information regarding its pension liability only in a note to the financial statements. The net operating results fail to reflect the costs of the pension benefits earned during each fiscal year by civil servants, employees of Crown entities dependent on Government funding, teachers and Members of the Legislative Assembly.

Employee pensions continue to be a significant cost of Government and its agencies. As we reported last year, there exists in excess of $1 billion in unrecorded pension costs in the Manitoba public sector. We recommended that a plan be put in place so the cost of pension entitlements earned would be included in the estimates for the year ending March 31, 1990. We are disappointed that this recommendation was not acted on. Our recommendations that the Government request officials to adopt realistic pension accounting for Crown agencies was also not acted on.

A clear way to appreciate the effect of the absence of appropriate accounting for pensions is to examine the effect on two major agencies, Manitoba Hydro-Electric Board (Hydro) and Manitoba Telephone System (MTS).

For 1988, Hydro reported a loss of $18.5 million and an accumulated surplus of $118.8 million. If the effect of pensions is included in these amounts, the loss would be $35.8

million and the surplus would change to a deficit of $56.5 million. It is easier to appreciate the significance of this deficit when one realizes that Hydro is the only major electrical utility in Canada which fails to record pension benefits earned. Various administrations in Manitoba have taken great pride in our low Hydro rates compared to other provinces. However, it is clear that rate increases would be required if these significant costs were included in the rate setting process.

MTS has been taking some steps to deal with its pension liabilities by setting aside funds for pension purposes. MTS's plan is to fully fund the accumulated deficit by the year 2001 and $61.3 million had been invested at the end of December, 1987 for this purpose. This is a positive step.

Because this policy has been only recently adopted, there remains a significant unrecorded liability for pension costs at MTS. MTS reported a profit of $1.9 million for the nine months ended December 31, 1987 and an accumulated surplus of $71.9 million. If MTS had recorded all of its pension costs over the years, as all other telephone companies in Canada have done, it would have reported an accumulated deficit of approximately $74 million. In addition, a reasonable basis of amortizing the unrecorded liability over 15 years would be to charge an equal amount to operations in each year. MTS did not do this for the nine months ended December 31, 1987. If this practice had been followed, MTS would have shown a small loss for this period. Historical comparison of Manitoba's telephone rates to those charged in other Provinces is difficult because this large unreported deficit must be taken into account before a fair comparison can be made.

It is also interesting to consider the consternation caused in the past by deficits reported by such organizations as the Manitoba Public Insurance Corporation, Manfor Ltd. and A.E. McKenzie Co. Ltd. These organizations have fully accounted for their pensions. The historical operating results of these entities have received unfair criticism in relation to Hydro and MTS when the accounting results of Hydro and MTS omit such an important aspect of their operations. Because there is no need for the accounting to be identical to the funding, we recommend that MTS and Hydro adopt, and adhere to, a pension accounting practice consistent with other utilities in Canada and with generally accepted accounting principles as enunciated by the Canadian Institute of Chartered Accountants. This would result in a much more accurate picture of their financial health than is presently being presented.

Implementation of these recommendations would have the effect of the financial statements of MTS and Hydro showing their true deficit position for the first time since 1961. It would also have the effect of giving the public a more accurate understanding of their financial health in relation to other utilities in Canada and to other agencies in the Manitoba public sector. This information would also assist decision makers in their determination of appropriate rates in the future.

The issue of funding pension costs is a different one from the issue of recording the costs as discussed above. MTS has made a decision to fund that part of the pension liability recorded to March 31, 1988. However, it is retaining the funds on its own balance

sheet and the Board retains control over the use of these funds. We are aware of other instances in the Government which have been handled differently. For example, each of the Universities has established a separate pension fund which is jointly administered by the University and employees. Other agencies pay to the Civil Service Superannuation Fund (CSSF) an amount which matches employee contributions. In these cases, employees have increased confidence in the use to which funds will be put. Also, in the case of the CSSF, there are administrative efficiencies in having expert in-house investment managers handle large sums of money. This would likely be more cost effective than for each agency to acquire, or pay for, investment advice separately. We recommend that MTS, and any other agency which decides to fund employee pension liabilities, consider the merits of these approaches as opposed to building up significant cash balances which will be increasingly complex to invest wisely.

As previously stated, pensions are also not appropriately or consistently reported in Public Accounts. The unrecorded costs in Public Accounts for pensions for civil servants, teachers, Members of the Legislative Assembly, and employees of certain Crown agencies amounted to approximately $102 million for the year ended March 31, 1988 (1987-$92 million) and have accumulated to approximately $894 million. Inconsistency in accounting distorts Government priorities and operating results in Public Accounts. Approximately $60 million of pension costs incurred as a result of Government support to education are not reflected each year in the public accounts, while such pension costs are reflected in the public accounts for health care costs. One can legitimately raise the question, "Why is it appropriate to account for pensions correctly for hospital employees but not for school division employees?". Under the present accounting policy, education appears to be getting disproportionately less funding than health care simply because a significant proportion of education costs remain unaccounted for in the financial statements of the Province.

Government deficits represent costs incurred to date which will have to be paid for by future taxpayers. The extent to which this is appropriate is a policy decision of Government. In order for the Members of the Legislature and citizens of Manitoba to form their own assessment of the appropriateness of the level of Government deficits, they require complete information. To the extent that significant costs such as pensions are excluded from the determination of the annual and accumulated deficits, the citizens of Manitoba are at a disadvantage to make their assessment of the quality of stewardship exercised over public funds.

It is expected that PSAAC will be issuing recommendations for accounting for pensions for Government employees before March 31, 1989. We continue to recommend that an action plan for adopting appropriate accounting policies for pensions in Public Accounts and Crown agencies be developed. This should include obtaining actuarial valuation data with respect to the unrecorded liability for teachers' pensions. We also recommend that the next set of financial statements issued by agencies reflect appropriate accounting policies for pension costs. Because there is no need for the funding of pensions to be linked to the accounting for pension costs, steps can be taken to record pension costs without the need to vote additional cash resources. Accordingly, we recommend that the estimates presented to the Legislative Assembly for the year ended March 31, 1991

contain a provision for recording pension costs to be incurred during that year.

Department of Finance officials have stated that the changes required in accounting for employee pension benefit costs present the Manitoba Government with extremely difficult accounting/funding problems. A survey of the federal and provincial governments recently done by the Public Sector Accounting and Auditing Committee shows that all Governments in Canada are in a similar position. Based on 1986-87 financial statements, Governments have not recorded over $30 billion in pension liabilities, of which Manitoba's share is $.8 billion.

A recent review of this issue by a management consulting firm recommended that the Government take a number of carefully coordinated steps to resolve the accounting/funding issues. These include obtaining actuarial valuations for accounting and funding purposes, consultation with all interested parties and the amendment of legislation. The Government has accepted these recommendations. The Government is also interested in consultation with other Provinces to determine the strategies being developed to contend with this issue.

Fixed Assets

We previously reported that a better basis of measuring the impact of capital expenditures on the Government's operating results needed to be developed. We recommended that the Government initiate a project to gather information regarding its capital assets. We also recommended improved disclosure of the Government's capital assets in Public Accounts.

The present policy results in a misstatement of the Government's financial position and of its operating results in that it fails to recognize that capital expenditures benefit the future to a significant extent.

The accounting policies section of Public Accounts indicates that capital expenditures include:

- expenditures for fixed assets that are deemed to have an economic life in excess of one year or will significantly prolong the expected economic life of an existing asset,

- the principal portion of debt repayment when the debt was incurred to acquire a physical asset and the acquisition cost was not previously reflected in the Consolidated Fund financial statements as an expenditure and

- grants which are known to be for the purchase, construction or improvement of physical assets.

PSAAC has identified a need to develop accounting recommendations regarding physical assets for the federal and provincial governments. Accordingly, a research study to deal with this issue is currently in process.

PUBLIC ACCOUNTS - ACCOUNTING POLICIES, PRESENT AND FUTURE

Capital-related expenditures by the Government are substantial. However, important information regarding the Government's capital assets is not reported in Public Accounts. As a result, a reader is unable to gain a sufficient insight into the nature of the expenditures to assess past or future Government normal operating, maintenance or replacement requirements.

We believe that details supporting the capital-related expenditures would provide meaningful additional information. Information classified by type of expenditure would be useful. This would include information regarding:

- the estimated useful life of the asset,
- the amount of the asset consumed during the fiscal year,
- the estimated remaining useful life of each class of asset,
- the annual operating costs associated with the asset,
- the amount spent on acquisition during the year and
- the proceeds and gain/loss on assets disposed of during the year.

This added information would be helpful to a reader in assessing future requirements and be useful to the Government's long-term planning process.

Action has been taken to deal with our concern regarding the development of an appropriate basis for accounting for capital assets and measuring operating results. A review was completed under the direction of the Comptroller of the Government of the Province of Manitoba. This review was completed in February of 1988. As a result of this review, a discussion paper was developed by Department of Finance staff and submitted to the Comptroller and Deputy Minister of Finance for consideration.

The discussion paper makes a number of useful recommendations regarding changes to the Government's accounting and reporting practices including recommendations regarding the criteria to be used in defining capital expenditures. The paper also provides recommendations regarding the method of depreciating and reporting capital assets. It also includes important guidelines regarding implementation on a retroactive basis and provision of supplementary information on capital assets. These recommendations are consistent with the recommendations we have been making. The paper also advises that a cautious approach should be taken in dealing with capital assets disclosure since PSAAC has not developed recommendations regarding this matter as yet. Review of the discussion paper recommendations has not taken place as yet.

A project to gather information regarding the Government's capital assets, in preparation for implementation of a more appropriate policy has not been given attention because of resource limitations and other priority matters. The Departments of Finance and Government Services initiated a project to develop a model to account for the

Government's vehicle fleet late in the fiscal year. This project has not proceeded very far as yet because of other priorities.

PSAAC's fixed asset recommendations have not been finalized and the Department of Finance is not planning to move ahead of the practices of other governments. As a result, the 1988 Public Accounts does not include any of the additional information regarding capital expenditures we previously recommended. Consequently, our concern has not been resolved as yet.

We recommend development of a plan to gather the information needed to reflect fixed assets properly in the Public Accounts. The plan should define the resources needed, who is responsible and a timetable for obtaining the information required.

Department of Finance officials have informed us that although Department officials have taken some preliminary steps on this matter, they are essentially awaiting a first draft of recommendations on this issue from the Public Sector Accounting and Auditing Committee. This will give the Government a sense of the direction in which the Committee is moving so that a plan can be developed to make the necessary changes in the Government's accounting requirements.

Self-Supporting Debt

In last year's Provincial Auditor's Report, we noted that certain Government debt declared to be self-supporting on the date of issue was, with the passage of time and changing circumstances, clearly no longer self-supporting. In these cases it has either already become a charge, or evidence clearly indicates that it will eventually become a charge, against the Consolidated Fund.

We recommended that the Treasury Division of the Department of Finance review the criteria of each program where debt is declared self-supporting and, where appropriate, reclassify the debt in the Public Accounts.

The Deputy Minister of Finance issued a policy, effective March 31, 1988, respecting the classification of debt from "self-supporting" to "general purpose". It sets out the circumstances under which debt will be reclassified. The policy states that the write-off of loans or advances will result in the reclassification of "self-supporting" to "general purpose" debt. The application of this policy is a positive step. During the year the Government reclassified $6.4 million. However, the valuation allowance includes $166 million regarding Government loans, advances and long-term investments as at March 31, 1988 which were funded with Government borrowings classified as self-supporting. The associated Government borrowings, however, have not been reclassified to general purpose debt as yet. In our view, the policy is incomplete since it does not deal with situations where there is general acknowledgement that the associated loans, advances and long-term investments are of doubtful value.

PUBLIC ACCOUNTS - ACCOUNTING POLICIES, PRESENT AND FUTURE

We recommend that the current policy be reviewed with a view to establishing criteria to recognize debt which should be considered as general purpose, rather than as self-supporting.

Department of Finance officials pointed out that the Public Accounts for the fiscal year ended March 31, 1988 provides information on the amount of debt associated with valuation allowances and indicate that, when a write-off of the assets occur, this debt will become general purpose debt of the Province.

Defining the Reporting Entity

The Public Sector Accounting and Auditing Committee of the Canadian Institute of Chartered Accountants, is expected to issue a recommendation shortly to define clearly what should be reported in Government financial statements.

These recommendations are intended to address a key issue in public accountability. This can be stated briefly as:

> What information do the readers of Government financial statements require to understand more fully the magnitude of Government operations, the impact of Government operations on the economy and the fiscal stewardship exercised by Government?

Typically, governments in Canada have made use of Crown agencies as instruments of public policy. Unfortunately, financial reporting with respect to the combined effect of these entities on the public purse has not kept pace with the proliferation of these entities. For example, in Manitoba, programs which are operated through a Government department are reflected in Public Accounts. They are also subject to considerable scrutiny by the Legislative Assembly. However, when a program is operated through a Crown agency the financial reporting for the Government as a whole becomes fragmented. The degree of scrutiny and control exercised by the Legislative Assembly over Crown agencies is often significantly less than for departmental programs.

The intention of the proposed PSAAC recommendations is to remove the fragmentation of financial reporting that has occurred in the past when Government programs were carried out through Crown agencies. This is to be accomplished by incorporating the financial results of all organizations, which are accountable for the administration of their financial affairs and resources either to a minister of a Government, or directly to the legislature, and which are owned or controlled by the Government, into a set of summary financial statements of the Government. This is an extension of the recently implemented, improved valuation procedures for loans and advances made to agencies of the Government and of the recently implemented consolidation of Manitoba Properties Inc. in the Public Accounts.

In our view, adoption of these recommendations has the potential to bring about a significant improvement in accountability for Government operations. However, it needs to be implemented in the context of new accountability procedures. For example, the

annual estimates process should be amended to be consistent with this new reporting basis. That is, the estimates process should be broadened to include projections of the financial results for all the organizations owned or controlled by the Government. These projections to be included in the estimates should also be subjected to scrutiny by the Legislative Assembly. In addition, a review should be completed to reconsider which Crown agencies should be monitored by the various committees of the Legislature. There are inconsistencies in this monitoring now that may not be appropriate.

We recommend that the Government develop an action plan to respond to the proposed PSAAC recommendations. This action plan should address the need for parallel changes in the estimates process and the accountability of Crown agencies to the Legislature.

Reduction of Fragmentation of Operating Results

For the past several years, we have been highlighting specific areas where accounting policy and reporting changes were needed. Last year we reported that the Consolidated Fund financial statements did not present fairly the Government's operating results and its loans and advances to Crown agencies. This was caused by inappropriate accounting policies. We used the term "fragmentation of operating results" to describe the effects of inappropriate accounting policies and financial statement presentation practices. By fragmentation, we mean that the operating results are either not located in one place or are not readily understandable. We take the position that a reader should not need to adjust reported financial results to make them meaningful. The financial statements should display appropriate information in a clear and straightforward manner.

Financial reporting is an important means by which the Government provides accountability to the public for the funds entrusted to it. Communicating financial information in a clear, straightforward manner is the primary means by which the Government provides such accountability.

The recent changes made to the Government's accounting policies and financial disclosure support the direction previously adopted by the Government in its accounting policies. They are also generally consistent with our previous recommendations and with the accounting policy direction being advocated by the Public Sector Accounting and Auditing Committee.

As a result of changes made in the 1988 Public Accounts, a number of our prior concerns regarding the fragmentation in operating results have been addressed. The following five paragraphs highlight the improvements made.

The Government revised its method of accounting for changes in valuation allowance. Previously, the change in valuation allowance was charged/credited to the excess of liabilities over financial assets. Changes in valuation allowances are now reported on the statement of revenue and expenditure prior to determining the deficit for the year.

The Government revised the method of reflecting the estimated costs to be incurred for the divestiture of Flyer Industries Limited. In the prior fiscal year, the estimated liability of

the Government in this regard was not charged as an expenditure prior to determining the deficit for the fiscal year. The 1988 financial statements reflect the adjustment of the Government's estimated liability as an expenditure.

The financial operations of Manitoba Properties Inc. (MPI) have been consolidated with the operating fund of the Consolidated Fund in volume 3 of the Public Accounts. This change resolves our prior year's concern that financial assets included in the Government's financial statements included claims against itself instead of only claims against other parties. This change also results in a more realistic display of the Government's leasing and borrowing costs. Further, it results in reporting renovation and construction projects on a basis consistent with the rest of Government renovations and construction projects.

The Government revised the funding arrangements regarding the operating requirements of the Communities Economic Development Fund. Previously, the Manitoba Development Corporation subsidized the Fund and as a consequence the Government's operating deficit for the fiscal year was understated. The Government provided the amount required to subsidize the operating requirements of the Fund through an appropriation for the fiscal year ended March 31, 1988.

The changes set out above are important because they result in more meaningful financial statements.

Department of Finance officials have noted that the Government has made significant progress in developing accounting policies and financial statement disclosure that will resolve concerns regarding "fragmentation of operating results". Significant issues, such as recording employee benefits and accounting for physical assets, still remain to be addressed and are a matter of concern for all Governments in Canada. The Manitoba Government's commitment to the publication of summary financial statements that will deal with the Government reporting entity, as recently defined by the Public Sector Accounting and Auditing Committee, is an important step in the right direction.

ORGANIZATION AND ACTIVITIES OF THE PROVINCIAL AUDITOR'S OFFICE

Organization

Our staff complement as at March 31, 1988 was 58 positions. The 58 positions consisted of 5 executives (management committee); 4 audit manager specialists (2 in computer auditing and 2 in professional practice); 11 audit managers; 34 auditors, technical staff and accounting students (4 of whom are specializing in the use of micro and mainframe computer technology to increase the efficiency and effectiveness of the auditing process) and 4 administrative support staff. Our staff of 58 is one less than the previous year. This reduction was accomplished by not filling a vacant position. We identified an opportunity to reduce the staff level in our Disbursement Audit Section by one position, while effectively continuing to meet our legislative mandate.

We continued to be successful in recruiting staff promptly to fill vacant positions. Term staff were used to assist the Office in meeting its objectives in periods of peak workload demands. As at March 31, 1988, all permanent positions were filled and there was 1 term person on staff. The actual staff person years utilized for the fiscal year ended March 31,1988 were 58.0 (1987 - 56.5).

Our professional staff maintain memberships in professional accounting associations. These include the Institute of Chartered Accountants, the Society of Management Accountants and the Certified General Accountants Association. This enables staff to keep abreast of new developments and technology in our profession. Our staff personally pay for these memberships.

During the year, one staff member obtained his designation as a Chartered Accountant and another her designation as a Certified General Accountant. This brought our professional staff to 19 Chartered Accountants, 10 Certified Management Accountants and 9 Certified General Accountants as at March 31, 1988.

During the year, we requested proposals from public accounting firms to provide us with continued expert assistance at the most senior level in computer auditing. We entered into a contract with one of these accounting firms to provide the services of a partner who is an internationally recognized computer auditing specialist. He assists us to maintain high standards of professional practice in this fast changing and increasingly complex area of auditing. He also assists in the high level training of our staff in computer systems and technology.

The Office's organizational structure is set out in the Organizational Chart, Exhibit 3. The organizational structure has not changed from the preceding year.

Activities:

General

We review the way we meet our mandate on an ongoing basis to ensure our responsibilities are being discharged effectively and efficiently. During the year, we undertook a special review of our major responsibilities. We did this to ensure that each

was receiving adequate attention, none was being inadvertently overlooked and that we were not duplicating efforts. Task teams were established to review aspects of our planning and organizational functions relative to our audit activities and to analyze our activities and relate them to the categories of attest, broader scope and compliance with legislation.

We also revised our audit planning, time recording and monitoring systems to enable us to better evaluate audit time spent on these categories. Through this process we have identified opportunities for increased efficiency and effectiveness.

We also developed a comprehensive, coordinated plan for the use of computer assisted audit techniques. This plan encompasses the audit planning stage through to reporting to the Legislature. As part of our long-range plan, we replaced our dedicated word processing system, which no longer met the Office's needs, with a microcomputer based word processing system. Each of our audit teams has been provided with a portable microcomputer. Professional staff are now using the computers to enhance analytical, and minimize clerical aspects of the audit process and to more efficiently generate audit observation reports. This increases efficiency in audit field work and report production.

Departmental Audits

We audit each of the departments of Government annually. For the 1988 fiscal year, this included 26 departments. This number is unchanged from the preceding fiscal year.

As part of our audit work on the Department of Finance, we review prospectus material. Input from our Office regarding the review of financial information in prospectus documents may be required when the Government raises funds through borrowings.

The borrowings during the 1988 fiscal year were made up of eight debt issues plus the savings bonds of which three debt issues and the savings bonds required involvement by our Office (1987 - four of seven debt issues). The nature of our involvement varies, depending on the jurisdiction in which the funds are being raised. Our involvement relates to reviewing prepared material, verifying operating results and other financial data and commenting on the appropriateness of the financial information included in the prospectus documents. Funds raised through borrowings from the Canada Pension Plan and issues of Treasury Bills do not require input from our Office, as prospectuses are not required.

Agency Audits

We audited 63 Crown agencies this year as compared to 58 agencies last year. The financial statements of these agencies are either reported on, or in process of being reported on, by our Office. The 63 agencies are listed in Exhibit 4 of this report.

We undertook six new audits this year. These audits are for recently established agencies. They are the Brandon University Holding Company, Manitoba Hazardous Waste Management Corporation, Manitoba Training Advisory Council Inc., Public

Investments Corporation of Manitoba, University of Manitoba Research and Development Ltd. and Westarc Group Inc.

As planned, we have discontinued the attest audit of the Deer Lodge Centre Inc. The Centre has appointed private-sector attest auditors which is consistent with other health care facilities. We believe this is appropriate.

In addition to the attest audit work and our ongoing broader scope work for these agencies, we undertook reviews with respect to specific broader scope and compliance with legislation issues.

Broader scope issues

- To review the mandates and expectations of chief financial officers.

Compliance with legislation issues

- To review the agencies' legislation and determine significant aspects which should be audited on an annual basis and other aspects which should be audited on a cyclical basis.

- To review other legislation which may affect an agency to determine what issues should be audited on an annual or cyclical basis.

- To determine, for those agencies to which The Crown Corporation Accountability Act applies, that the agencies are complying with the following aspects of the legislation:

  - section 4(4) establishing conflict of interest guidelines,

  - section 5(2) establishing a planning committee of the board,

  - section 8(1) establishing an audit committee of the board,

  - section 8(2) duties of the audit committee and

  - section 9(1) deadline for completion of audited financial statements.

Overview Audits

We carried out overview audits of the 14 Government agencies listed in Exhibit 5 of this report. The attest audits of these agencies were done by private-sector audit firms. This is the same number of overviews that our Office conducted in the previous year. The audit of Flyer Industries Limited has been discontinued because the corporation has been wound up. Deer Lodge Centre Inc. has been added as an overview audit.
The Office undertook reviews with respect to compliance with legislation and the broader scope issues on the same basis as the agency audits where we do the attest audit.

ORGANIZATION AND ACTIVITIES OF THE PROVINCIAL AUDITOR'S OFFICE

Special Audits

Last year we reported that we had completed a special audit of the Reinsurance Operations of the Manitoba Public Insurance Corporation. The report was tabled in the Legislative Assembly on June 19, 1987. It was subsequently discussed extensively at meetings of the Standing Committee on Public Utilities and Natural Resources. Further details are reported in the Agency Operations section of this report under Manitoba Public Insurance Corporation.

Since March 31, 1988 the Office has undertaken three special audits. The special audits relate to the Manitoba Intercultural Council, the Communities Economic Development Fund and the Winnipeg South Child and Family Services agency. The Manitoba Intercultural Council special audit has been completed and our report made public.

Computer Audits

The Office conducts a yearly review of the processes and controls at the Government's computer centre, Manitoba Data Services. The review is based on the Computer Control Guidelines issued by the Canadian Institute of Chartered Accountants. The results of the reviews are made available to the senior officials of departments and Crown agencies. The Crown agencies' attest auditors also make use of these results.

This year, with assistance from our contracted computer audit specialist, we revised our procedures for conducting reviews of computer operations. This revision was necessary because of recent changes to the Computer Control Guidelines.

Staff Training

We have continued to base our staff training and development program on a combination of on-the-job training, formal training courses and participation in conferences sponsored by various professional organizations. This includes participating in relevant courses provided by the Civil Service Commission. Wherever possible, we deliver our formal training courses in-house, using our own staff. This minimizes costs and provides a high level of staff development.

In accordance with Government policy, the Office provides educational assistance to staff registered as students in recognized professional accounting association programs. Other staff participate in certain presentations which relates to our work provided by these organizations. In addition, the Office assists several staff continuing to expand their level of expertise by attending certain specialized courses.

The Office maintains an individual membership in such associations as the Canadian Institute of Public Administration, the Institute of Internal Auditors, the E.D.P. Auditors Association, the Canadian Comprehensive Auditing Foundation and other relevant organizations. These organizations provide useful relevant literature and sponsor educational conferences. Selected staff participate in relevant conferences.

ORGANIZATION AND ACTIVITIES OF THE PROVINCIAL AUDITOR'S OFFICE

Two of our directors participated in the annual meeting of the Legislative Auditors' Practices Committee. This Committee provides the benefits of sharing valuable ideas, methods and procedures for performing audits in the public sector and on professional staff development and quality control. Participation in this Committee work enables us to keep abreast of economical and efficient approaches being used to advantage elsewhere.

In the past year, the Office focused its staff development programs on audit objectives, risk assessment, fraud awareness and special audit processes. The following paragraphs provide comments on these staff development activities.

The Office developed and presented in-house seminars on our audit objectives. The seminars dealt with aspects of our planning and organizational functions and the relationship of our audit activities to our role and mission. Through these seminars we also communicated to staff our revised planning, time recording and monitoring systems. The two way communication at these seminars served to clarify the intended audit approach for our staff.

The Office organized a seminar on risk assessment. The seminar was presented by a professional trainer of the MIS Training Institute. We arranged for members of our Office and other internal audit groups in Provincial Government departments, Crown agencies and the City of Winnipeg to attend. These attendees contributed to the cost of the seminar. Better assessment of operational risk will enable the Office to improve the effectiveness of the audit process, to maximize the efficient use of audit resources and to reduce subjectivity. After completion of the seminar, the Office developed risk assessment criteria to assist staff to assess risk for our audit assignments. The Office provided details of its risk assessment models to other legislative auditors, the City of Winnipeg auditor and internal audit groups in the Government.

The Office's executive and staff involved in the special audit function attended a presentation by legal staff of the Department of the Attorney-General. The presentation, requested by our Office, outlined techniques regarding conducting and documenting interviews, approaches to gathering evidence and preparation and testimony for court appearances and committee hearings. The legal staff also alerted us to matters that we have to be aware of during our special audits to ensure that we do not hinder possible court cases. The presentation reinforced our existing approach and clarified our procedures for staff identified to participate on any up coming special audits.

The Office also arranged for the Royal Canadian Mounted Police to present a seminar on fraud awareness. The seminar was presented to members of our office as well as staff of Provincial Government departments, Crown agencies and the City of Winnipeg. The seminar emphasized staff's need for continuing awareness of the possibilities of fraud. It provided them with information regarding types of fraud, causes of fraud and what to do when fraud is detected.

We also continued to place a high priority on our training in computer systems and technology. Staff is being trained in the use of micro computers and specialized audit software.

ORGANIZATION AND ACTIVITIES OF THE PROVINCIAL AUDITOR'S OFFICE

Revenue and Expenditure

The revenue and expenditure of the Office for the year ended March 31, 1988 as compared with the estimate, and with the actual revenue and expenditure of the preceding year, are shown below (in thousands of dollars). The amounts shown as estimated expenditure for 1988 have been adjusted from the printed estimate to reflect a sub-appropriation transfer of $65.1 thousand. This transfer was made to accommodate additional costs incurred as the result of a special audit and to facilitate accelerating our acquisition of computer resources.

Comparison of Actual Revenue and Expenditure to Estimate March 31, 1988

	Actual	Estimate	Variance
Revenue	$ 772.8	$ 730.5	$ 42.3
Expenditure:			
Salary	2,298.9	2,316.8	17.9
Other	185.4	186.1	.7
	2,484.3	2,502.9	18.6
	$ 1,711.5	$ 1,772.4	$ 60.9

Comparison of Actual Revenue and Expenditure to the Preceding Year

	Actual		
	March 31		Increase
	1988	1987	(Decrease)
Revenue	$ 772.8	$ 770.1	$ 2.7
Expenditure:			
Salary	2,298.9	2,211.1	87.8
Other	185.4	114.3	71.1
	2,484.3	2,325.4	158.9
	$ 1,711.5	$ 1,555.3	$ 156.2

ORGANIZATION AND ACTIVITIES OF THE PROVINCIAL AUDITOR'S OFFICE

Variance Explanations:

Revenue

The increase in actual over estimated revenue results from three new audits billed during the year and a small increase in our billing rate. Current year revenue remained close to prior year revenue because of an increase of approximately $30 thousand in billing payments received after the year end.

Expenditure

The increase in other expenditures over the preceding year is attributable to the acceleration of our computerization program, which is commented on previously in this section. It had become increasingly apparent that auditors need to be equipped with and trained in the use of computer technology if they are to maintain their effectiveness. This is in keeping with the audit approaches in the private sector and other legislative audit offices. As a result, we undertook to provide each of our audit teams with a portable micro computer and to upgrade our word processing equipment. Initial indications are that both these changes are contributing to a higher level of confidence in more of our staff in dealing with computer related issues. Also, we have identified a number of opportunities to make use of various software packages to enhance the effectiveness of our audit processes.

Audit of the Accounts of the Provincial Auditor's Office

A professional accountant from the Comptroller's Division of the Department of Finance carried out an audit of the accounts of the Office of the Provincial Auditor in accordance with section 19 of The Provincial Auditor's Act. A copy of the audit report issued by the Comptroller is included as Exhibit 6 of this report.

Meeting of Legislative Auditors

The Canadian Conference of Legislative Auditors is an informal association of the legislative auditors of Canada and the Provinces. The fifteenth annual conference was held during the fiscal year ended March 31, 1988. These meetings, which we attend, serve as an excellent forum for the exchange of information on matters of mutual interest, and the discussion of technical information important to the work of our Offices. They are held in conjunction with the Canadian Council of Public Accounts Committees and include joint sessions where legislative auditors and public accounts committee members explore issues of mutual interest.

Participation on Professional Committees

Members of the Office participate on various committees of the Canadian Institute of Chartered Accountants (CICA) and the Institute of Chartered Accountants of Manitoba (ICAM). The Provincial Auditor is a member of the Public Sector Accounting and Auditing Committee (PSAAC) of the CICA and has been assisting on a subcommittee examining

the nature of the Government reporting entity. The Assistant Provincial Auditor and Director of Public Accounts Audit participate as associates of PSAAC.

The Assistant Provincial Auditor is a member of the Members in Industry, Government and Education Committee of ICAM. The Director of Professional Practices is a member of the Office Practices Advisory Committee of ICAM.

Through participation on these committees, staff of the Office keep abreast of developments in public sector auditing and accounting. They also make a contribution to these developments.

ACKNOWLEDGEMENTS

My staff and I are pleased to express our appreciation for the cooperation and assistance we received from elected and appointed officials and staff of departments, Crown agencies and grantees.

We would also like to thank the members of the Legislative Assembly, the media and the public for their assistance, understanding and support.

I also wish to thank the staff of my Office for their support during the past year.

F. H. Jackson, CA
Provincial Auditor

November 30, 1988
Winnipeg, Manitoba

LEGAL PROVISIONS

Exhibit 1

Sections of The Provincial Auditor's Act regarding our reporting responsibilities follow.

Report to Assembly

13(1) The Provincial Auditor shall report annually to the assembly

(a) on the work of his office; and

(b) on whether, in carrying on the work of his office, he received all the information and explanations he required.

Content of the Report

13(1.1) Each report of the Provincial Auditor under subsection (1) shall call attention to anything that he considers to be of significance and of a nature that should be brought to the attention of the assembly, including any cases in which he has observed

(a) that accounts have not been faithfully and properly maintained or public moneys which are required by law to be fully accounted for and paid into the Consolidated Fund have not been so accounted for and paid;

(b) that essential records have not been maintained or that the rules and procedures applied have been insufficient

(i) to safeguard and control public property, or

(ii) to secure an effective check on the assessment, collection and proper allocation of the revenue, or

(iii) to ensure that expenditures have been made only as authorized; and

(c) that public moneys have been expended other than for the purposes for which it was appropriated by the Legislature.

Submission of Report

13(2) The report of the Provincial Auditor shall, on or before the thirty-first day of December next after the close of the fiscal year for which it was made, be delivered to the Lieutenant Governor in Council to be laid before the assembly if it is then in session, or, if the assembly is not then in session, within fifteen days after the commencement of the next ensuing session.

Report on Government Statements

14 The Provincial Auditor shall examine the several financial statements required to be included in the Public Accounts under The Financial Administration Act, and any other statements which the member of the Executive Council charged with the administration of The Financial Administration Act may present for audit, and shall express his opinion as to whether they fairly present information in accordance with accounting policies of the Government stated in the Public Accounts and on a basis consistent with that of the preceding year together with any reservations he may have with respect thereto.

SCOPE OF AUDIT AND REPORTING PROCEDURES

Exhibit 2

General Comments

In accordance with The Provincial Auditor's Act, the Office of the Provincial Auditor is required to carry out various kinds of audits to report to the Legislature on the appropriateness of the accountability of the Government, its agencies and recipients of public monies. The Office carries out financial, compliance with authority and broader scope administrative audits of the Government and the agencies listed in Exhibit 4; broader scope administrative and compliance with legislation overview audits of the Government agencies listed in Exhibit 5, whose financial audits are carried out by private-sector audit firms; inspection audits of selected recipients of public monies and; special audits as considered appropriate and as requested, provided they do not interfere with our primary responsibilities. Further particulars regarding these activities and our reporting procedures are outlined in the following paragraphs.

Role and Mission

Our Office carries out one program. This program consists of several interrelated activities. The objectives of these activities are enunciated in our Office's role and mission statement. Developing this report is one of the main outputs of our activities. Our role and mission includes:

Attest Audits

- independent, objective reporting to the Legislature and the Government through the expression of professional opinions on the annual financial statements of the Government and those Crown agencies where we are the auditor.

- independent reporting to the lenders through prospectus documents when the Government raises the funds it requires through borrowings.

Compliance with Legislation Audits

- independent, objective reporting to the Legislature and Government that:

    - there is authority for expenditures from the Consolidated Fund;

    - Government expenditures do not exceed the approved legislative vote; and

    - expenditures have not been made for purposes other than that for which funds were voted.

- independent, objective reporting to the Legislature and Government of significant instances observed during the audits of Government departments and Crown agencies regarding non-compliance with applicable legislation.

SCOPE OF AUDIT AND REPORTING PROCEDURES

Exhibit 2

Broader Scope Audits

- independent, objective reporting to the Legislature and Government of significant matters observed during our audits of the appropriateness and effectiveness of administrative, financial and accountability systems and organizational relationships and arrangements within Government, Crown agencies and recipients of public funds.

Audits of the Provincial Government and its Agencies Entirely Audited by the Provincial Auditor

The Office performs audits of the Government of the Province of Manitoba and the Crown agencies listed in Exhibit 4, using a systems based audit approach under the direction of professional staff. These audits consist of the following four components:

1. An audit is done for the purpose of expressing an opinion on the fairness of the presentation in the financial statements developed by Government or Crown agency officials. The examination is made in accordance with generally accepted auditing standards. It includes a general review and evaluation of the accounting procedures and internal financial controls, together with such tests of key financial controls, accounting records, and supporting evidence as are considered necessary in the circumstances.

2. An audit of payments from the Consolidated Fund is done on an on-line basis as departmental requests for payment are presented to the central system for processing. This audit is fully coordinated with the systems based audit of departments and meets the pre-audit requirements of sections 10 and 11 of The Provincial Auditor's Act. The on-line audit process also provides early detection of weaknesses or problems so that prompt corrective action can be taken. This process also enables the Office to audit special and unusual payments on a timely basis. The audit of payments from the Consolidated Fund consists of:

   a) an examination of all requests for payment for legislative authority and approval by designated officials. During this work, we review all significant requests for payment to satisfy ourselves that they are being handled in a business-like manner to protect the Province's interests. This work includes detailed checking of requests for payment to contracts, Orders-in-Council, and Treasury Board minutes. Requests for payment not meeting the above requirements would be refused. Where legislative authority for payment is lacking, payments cannot be made. Payment requests refused for other reasons can only be made by the special authority of the Minister of Finance. Audit observations arising from this audit process are normally attended to in a satisfactory manner so as to preclude any need for refusal. However, should there be a refusal which requires the special authority of the Minister of Finance, the particulars would be fully reported to the Legislature in this report. There was no need for such refusals in the past year.

b) test checking of requests for payments for completeness of supporting documentation, accuracy of arithmetical calculations, compliance with Government directives, etc. to satisfy ourselves that the departmental purchasing, payroll and disbursements systems are operating satisfactorily. Matters requiring further attention are referred to appropriate staff in the Office for further consideration in the evaluation of the departmental systems, and in the development of audit recommendations for improvement. If the testing and evaluation of departmental systems reveals a breakdown, and it is concluded that the work being carried out by departmental personnel could not be relied upon to safeguard provincial funds, further requests for payment would be refused. In such an instance, in accordance with The Provincial Auditor's Act, payments could only then be made on the special authority of the Minister of Finance. Departmental systems are normally corrected to incorporate audit recommendations for improvement on an ongoing basis to maintain the integrity of the systems. However, should this not be done and there was need for refusal of payment requests, the matter would be fully reported to the Legislature in this report. There was no need for such refusals in the past year.

3. An examination of the administrative practices and the related key internal controls is undertaken to ascertain that the entity is organized and operating in a business-like manner. The objective of this work is to satisfy ourselves that the financial and administrative practices of the entity give due regard to matters regarding economy, efficiency and effectiveness. This examination is carried out within the capabilities of professional accountants with specialized training and experience. The examination includes a review of:

- the entity's objectives and organizational structure,
- its budgeting and monitoring systems in place for comparing actual results with budget and determining variance explanations,
- its internal audit system and other performance monitoring systems,
- its purchasing and personnel procedures and
- its adherence to Government guidelines.

4. An audit is done to determine that the entity is complying with legislation.

A more in-depth investigation may be undertaken of specific concerns raised or observed during the above-mentioned examinations or noted from other sources. Such other sources may be:

- the Legislature or any of its committees,

- the Lieutenant Governor in Council or the Minister of Finance, provided this does not interfere with our primary responsibilities,

- the news media and

- elected members, public servants and the general public. The sources of this information are held strictly confidential.

Overview Audits of Crown Agencies Whose Financial Statements Were Audited by Private-Sector Audit Firms

Overview audits are carried out by the Office for those Crown agencies listed in Exhibit 5. These are agencies for which audit firms were appointed to carry out audits on their financial statements. The audits conducted by the audit firms are of a kind as described in the preceding component 1. Our overview audits consist of a review of the audited financial statements, management reports of the audit firms and matters of a broader scope nature as described in the preceding components 3, 4 and 5.

Special Audits

Section 15 of the Provincial Auditor's Act provides authority for the Provincial Auditor to undertake special audits. The Lieutenant Governor in Council or the member of the Executive Council charged with the administration of The Financial Administration Act may request the Provincial Auditor to undertake special audits. If the audit does not interfere with the Office's primary responsibilities, the Provincial Auditor accepts the special audits and gives them a high priority.

Inspection Audits

Inspection audits of recipients of public funds are conducted under the authority of section 17(4) of The Provincial Auditor's Act. The audit procedures are similar to those of the management overview audits described previously in components 3 and 4. These audits are limited in number. A review of a much larger number of grantees for accountability is carried out during the audits of the Government departments and Crown agencies. These reviews mainly consist of an evaluation of the adequacy of the grantor's systems to monitor the grantee's accountability of funds received. We also assess grant accountability concerns observed by the grantor and determine if the grantor has taken corrective action.

Involvement in Prospectuses

The Government of the Province of Manitoba raises funds in financial markets to meet a portion of its requirements. The funds raised are used to:

- finance general Government programs;

- provide advances to Crown corporations and agencies for capital projects; and

- replace maturing debt.

The Government raises the funds it requires through the issuance of debt instruments. The Government has raised funds in Canada, the United States of America, Europe, and the Orient. The issuance of prospectuses is an important part of raising funds. Prospectuses are essential documents, as they help potential investors evaluate the attractiveness of purchasing Manitoba Government debt instruments. The various jurisdictions in which the Government raises funds have different informational requirements. In some jurisdictions, the prospectus documents must include comprehensive historical and financial information about Manitoba, the Government's financial condition and operations. In addition, information about the operations of major Crown entities established by the Government is required. Other jurisdictions have less stringent informational requirements. The United States and Canada require input from our Office regarding a review of financial information included in the prospectus document.

Over the past several years, the Government has approached the financial markets frequently to raise the cash it needs. The total amount of such borrowings has also generally been increasing. Because of the importance of the prospectus document to the potential investor, we spend considerable effort fulfilling our professional responsibilities in satisfying ourselves of the reasonableness of the information included in the various prospectus documents.

Reporting Procedures

Reporting on Financial Statements

Reports are issued on the fairness of the presentation of information in the financial statements of the Government of the Province of Manitoba, and of the Crown agencies listed in Exhibit 4.

Audit Report on Public Accounts

The issuance of our attest opinion report (Exhibit 7) on our examination of the summary financial statements is one of our main responsibilities. This responsibility is set out in section 14 of The Provincial Auditor's Act. This section requires the Provincial Auditor to express an opinion as to whether the statements "fairly present information in accordance with accounting policies of the Government stated in the Public Accounts and on a basis consistent with that of the preceding year together with any reservations he may have with respect thereto".

The opinion report includes two standard paragraphs. The first is a paragraph which refers to the scope of our audit. The last paragraph expresses an opinion on the financial statements. Further details concerning these two paragraphs are provided below.

SCOPE OF AUDIT AND REPORTING PROCEDURES

Exhibit 2

The first paragraph of the report indicates that the audit report is developed by this Office. It also indicates which statements are covered by our opinion. It also contains a reference to the nature of the audit work performed. The phrase, "generally accepted auditing standards" relates to three broad standards.

The first is a general standard dealing with the persons performing the work. The work is to be performed by persons having appropriate technical training and proficiency in auditing. It also relates to the expectation that the audit is to be performed with due care and with an objective state of mind.

The second standard relates to the audit work performed. The audit work is to be adequately planned, properly executed and supervised. In addition, there is to be an appropriately organized study, testing and evaluation of those controls on which the auditor will be relying upon in determining the nature, extent and timing of audit procedures to be performed. The examination standard also requires that sufficient and appropriate audit evidence be obtained to provide a reasonable basis to support the content of the audit report.

We seek reasonable assurance that information provided in the financial statements, taken as a whole, is fairly presented. Audit procedures are undertaken which are designed to assess the fairness of the financial statement representations. Absolute audit assurance regarding the fairness in presentation is not possible. Accordingly, the evidence accumulated during an audit does not guarantee absolute precision.

The third standard relates to audit reporting. Reference to the scope of the audit examination in the audit report is required. This standard also provides direction regarding the contents in the audit report. Reference is also made to "such tests and other procedures as were considered necessary". It is impractical to examine all transactions. Accordingly, many procedures are performed on a test basis. Professional judgement is exercised in determining the procedures to be undertaken and their extent. The report is also to indicate whether limitations or restrictions were placed upon the audit process.

The last paragraph of the report expresses the opinion that we have reached on the basis of the evidence obtained on the representations included in the financial statements. Judgement is exercised in forming an opinion as to whether the information contained in the financial statements "present fairly" the financial position of the Government and the results of its operations and changes that have occurred during the fiscal year. We exercise professional judgement regarding the appropriateness of the accounting principles adopted during the development of the financial statements. We also exercise professional judgement regarding the adequacy of the presentation adopted within the financial statements. Consistency with the Government's disclosed basis of accounting is the first standard for comparison in determining our opinion for reporting on Public Accounts. In addition, we evaluate the Government's accounting policies to determine whether they are appropriate under the circumstances. If we concluded that the Government's accounting policies were not appropriate, our report would indicate our reservation. Changes in accounting principles between fiscal years could have a

significant impact upon the comparability of reported amounts. Therefore, our audit report also provides an indication as to whether the comparability of financial statements between fiscal years has been affected. This reporting aspect is embodied in the phrase "basis consistent with that of the preceding year".

Internal Reporting

During our audits, observed instances of non-compliance with legislation, weaknesses in internal control, ineffective supervision, records not being up-to-date and any other deficiencies or irregularities are brought to the attention of the officials concerned for appropriate action. Matters which warrant the attention of ministers and chairpersons of the boards of Crown agencies are directed to them and to the Minister of Finance in written reports in accordance with the requirements of subsection (3) of section 12 of The Provincial Auditor's Act. During subsequent visits, these matters are followed-up to ascertain whether appropriate corrective action has been taken.

Report to the Legislative Assembly

Significant matters, which have been reported to ministers and chairpersons of the boards of Crown agencies which have not been resolved within a reasonable period of time, are included in our annual report to the Legislative Assembly. A number of significant matters which have been resolved are also included in this report. These matters are of a kind which in the Provincial Auditor's judgement warrant the attention of the Assembly as information, either because they were raised in the Assembly, or a committee of the Assembly, or for reasons of maintaining confidence in the system. Both the problems and the corrective actions are reported.

Section 13(4) of The Provincial Auditor's Act also provides that a special report may be made to the Assembly. In determining whether we should develop a special report, an evaluation of the criticality of the issue is required. If we conclude that a matter is of pressing importance or urgency that requires special attention and action by the Assembly, a special report will be made. During the fiscal year ended March 31, 1988 there were no matters which required special reporting.

OFFICE OF THE PROVINCIAL AUDITOR

ORGANIZATIONAL CHART

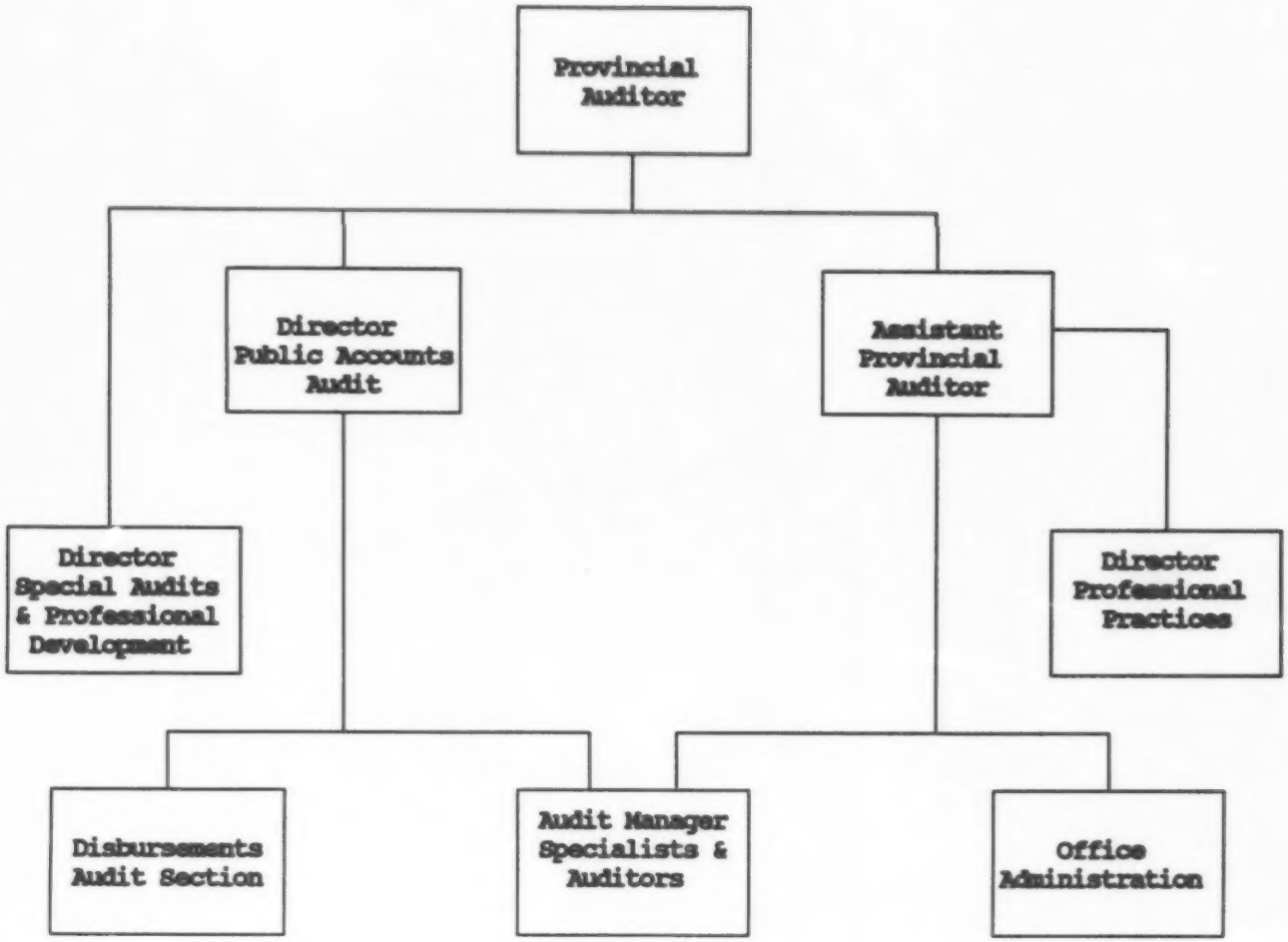


Exhibit 3

SCHEDULE OF CROWN AGENCIES WHOSE FINANCIAL STATEMENTS WERE AUDITED AND REPORTED ON BY THE PROVINCIAL AUDITOR'S OFFICE

Exhibit 4

Name of Organization	Fiscal Year Ended
Alcoholism Foundation of Manitoba	March 31, 1988
Board of Administration under The Embalmers and Funeral Directors' Act	December 31, 1987
Brandon University	March 31, 1988
Brandon University Holding Company	March 31, 1988
Brandon University Retirement Plan	December 31, 1987
Centre Culturel Franco-Manitobain	March 31, 1988
Channel Area Loggers Ltd.	March 31, 1988
Civil Service Superannuation Fund	December 31, 1987
Communities Economic Development Fund	March 31, 1988
Co-operative Loans and Loans Guarantee Board	March 31, 1988
Co-operative Promotion Board	March 31, 1988
Criminal Injuries Compensation Board	March 31, 1988
Department of Municipal Affairs - Minister's Trust Account	March 31, 1988
Habitat Heritage Corporation	March 31, 1988
Horse Racing Commission	March 31, 1988
Leaf Rapids Town Properties Ltd.	March 31, 1988
Legal Aid Services Society of Manitoba	March 31, 1988
Liquor Control Commission	March 31, 1988
Manfor Ltd.	December 31, 1987
Manitoba Agricultural Credit Corporation	March 31, 1988
Manitoba Arts Council	March 31, 1988
Manitoba Beef Commission	March 31, 1988
Manitoba Centennial Centre Corporation	March 31, 1988
Manitoba Crop Insurance Corporation	March 31, 1988
Manitoba Data Services Commission	December 31, 1987
Manitoba Development Corporation	March 31, 1988
Manitoba Hazardous Waste Management Corporation	December 31, 1987
Manitoba Health Research Council	March 31, 1988
Manitoba Health Services Commission	March 31, 1988
Manitoba Hospital Capital Financing Authority	March 31, 1988
Manitoba Housing and Renewal Corporation	March 31, 1988
Manitoba Intercultural Council	March 31, 1988
Manitoba Lotteries Foundation	March 31, 1988
Manitoba Mental Health Research Foundation	March 31, 1988
Manitoba Milk Prices Review Commission	March 31, 1988
Manitoba Mineral Resources Ltd.	December 31, 1987
Manitoba Research Council	March 31, 1988
Manitoba Text Book Bureau	March 31, 1988
Manitoba Training Advisory Council Inc.	March 31, 1988
Manitoba Trading Corporation	March 31, 1988
Manitoba Vegetable Producers' Marketing Board	June 30, 1987

SCHEDULE OF CROWN AGENCIES WHOSE FINANCIAL STATEMENTS WERE AUDITED AND REPORTED ON BY THE PROVINCIAL AUDITOR'S OFFICE

Exhibit 4

Name of Organization	Fiscal Year Ended
Manitoba Water Services Board	March 31, 1988
Moose Lake Loggers Ltd.	March 31, 1988
Municipal Employee Benefits Fund	December 31, 1987
Northern Affairs Fund	March 31, 1988
Peak of the Market Sales Ltd.	June 30, 1987
Public Investments Corporation of Manitoba	December 31, 1987
Public Schools Finance Board	December 31, 1987
Public Service Group Insurance Fund	April 30, 1987
Public Trustee of Manitoba	March 31, 1988
Superannuation Resources Investment Corporation of Manitoba Inc.	December 31, 1987
Teachers' Retirement Allowances Fund	December 31, 1987
Teachers' Retirement Resources Investment Corporation of Manitoba Inc.	December 31, 1987
Universities Grants Commission	March 31, 1988
University of Manitoba	March 31, 1988
University of Manitoba Pension Plans	December 31, 1987
University of Manitoba Research Ltd.	March 31, 1988
University of Manitoba Research and Development Ltd.	March 31, 1988
University of Winnipeg	March 31, 1988
University of Winnipeg Pension Plan	December 31, 1987
Venture Manitoba Tours Ltd.	March 31, 1988
Westarc Group Inc.	March 31, 1988
Workplace Innovation Centre	March 31, 1988

In addition to the foregoing, there are other government agencies which do not have their own funds but carry out their operations through the Consolidated Fund. The operations of these agencies are audited as part of our regular audit of the Consolidated Fund.

SCHEDULE OF CROWN AGENCIES WHOSE FINANCIAL STATEMENTS WERE AUDITED BY PRIVATE-SECTOR AUDIT FIRMS WITH AN OVERVIEW AUDIT BY THE PROVINCIAL AUDITOR'S OFFICE

Exhibit 5

Name of Organization	Fiscal Year Ended
A. E. McKenzie Co. Ltd. and Subsidiaries	October 31, 1987
Credit Union Stabilization Fund	December 31, 1987
Deer Lodge Centre Inc.	March 31, 1988
Fonds de Sécurité des Caisses Populaires	December 31, 1987
Manitoba Boxing and Wrestling Commission	March 31, 1988
Manitoba Energy Authority	March 31, 1988
Manitoba Hydro-Electric Board	March 31, 1988
Manitoba Oil and Gas Corporation	December 31, 1987
Manitoba Properties Inc.	January 31, 1988
Manitoba Properties Leasing Inc.	December 31, 1987
Manitoba Properties Management Inc.	December 31, 1987
Manitoba Public Insurance Corporation	October 31, 1987
Manitoba Telephone System	December 31, 1987
Workers Compensation Board	December 31, 1987

Manitoba

Finance Comptroller's Division 709 Norquay Building
Winnipeg, Manitoba, CANADA
R3C 0P8

Exhibit 6

October 13, 1988

Honourable Clayton Manness
Minister of Finance
103 Legislative Building
Winnipeg, Manitoba

Dear Sir:

Section 19 of the Provincial Auditor's Act states:

> "A qualified auditor nominated by the Executive Council or a committee thereof shall examine the receipts and disbursements of the Office of the Provincial Auditor and shall annually make a report of the outcome of the examination to the assembly which shall be submitted to the member of the Executive Council charged with the administration of The Financial Administration Act on or before the last day of December next following the end of the fiscal year of the government to which the report relates."

My division now performs this audit on a regular basis. Under my direction, an auditor from Financial and Management Systems Branch has conducted an audit of the Provincial Auditor's Office for the year ended March 31, 1988.

The audit was limited to a general review of the accounting procedures and accounting records of the Provincial Auditor's Office. Such tests were performed as were considered necessary in the circumstances.

In my opinion, the accounts of the Audit Office are maintained in an efficient, well organized manner and comply with all the requirements of the Financial Administration Act and all other applicable statutes.

Yours truly,

E. Rosenhek
Comptroller

cc: F.H. Jackson

Exhibit 7

REPORT OF THE PROVINCIAL AUDITOR
ON THE SUMMARY FINANCIAL STATEMENTS
OF THE GOVERNMENT OF THE PROVINCE OF MANITOBA

I report that the summary financial statements of the Government of the Province of Manitoba, being the statement of financial position as at March 31, 1988 and the statements of excess of liabilities over financial assets, revenue and expenditure, changes in financial position and schedules 1 to 6 for the year then ended have been examined under my direction. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Government of the Province of Manitoba as at March 31, 1988 and the results of its operations and the changes in its financial position for the year then ended. The financial statements are presented in accordance with the Government's stated accounting policies applied, except for the changes in the accounting policies explained in Accounting Policies - Statement and Application, Application of Accounting Policies, section IV to the financial statements, on a basis consistent with that of the preceding year.

F.H. Jackson, CA
Provincial Auditor

November 30, 1988
Winnipeg, Manitoba

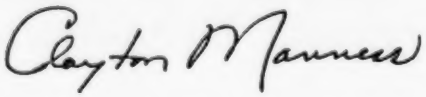
Exhibit 8

GOVERNMENT OF THE PROVINCE OF MANITOBA

STATEMENT OF RESPONSIBILITY

Responsibility for the integrity and objectivity of the Summary Financial Statements rests with the Government. They are prepared under the direction of the Minister of Finance in accordance with the stated accounting policies of the Government and include a statement of financial position, a statement of excess of liabilities over financial assets, a statement of revenue and expenditure, a statement of changes in financial position, schedules, notes and accounting policies integral to the statements. Together, they present fairly, in all material respects the financial condition of the Consolidated Fund at the fiscal period-end and results of operations for the year then ended after giving effect to the consolidation of Manitoba Properties Inc., Manitoba Properties Management Inc. and Manitoba Properties Leasing Inc.

On behalf of the Government:



Honourable Clayton Manness
Minister of Finance
November, 1988

SUMMARY FINANCIAL STATEMENTS
GOVERNMENT OF THE PROVINCE OF MANITOBA
STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 1988
(with comparative figures for March 31, 1987)

SCHEDULE NO		($ millions) 1988	1987
	FINANCIAL ASSETS		
	Cash and Equivalents	$ 982	$ 625
1.	Amounts Receivable	175	137
2.	Loans and Advances:		
	Crown Corporations, Agencies, Boards and Commissions	3,569	2,969
	Other Governments	9	10
	Other	67	84
3.	Long-Term Investments	174	158
	Valuation Allowance	(198)	(52)
	Total Financial Assets	$4,778	$3,931
	LIABILITIES		
	Amount owing to the Trust Fund	$ 842	$ 570
4.	Accounts Payable, Accrued Charges and Deferred Revenue	346	368
	Provision for Foreign Currency Fluctuation on Manitoba Hydro Debt (Note 2)	153	239
5.	Borrowings (Note 3):		
	Bonds and Debentures	6,937	5,857
	Canada Pension Plan	1,203	1,223
	Government of Canada	117	123
	Treasury Bills	325	325
	Preferred Shares of Manitoba Properties Inc.	399	399
	Unamortized Foreign Currency Fluctuation (Note 4)	(666)	(959)
	Total Liabilities	$9,656	$8,145
	EXCESS OF LIABILITIES OVER FINANCIAL ASSETS AND OTHER OBLIGATIONS HELD BY THE PROVINCE CONSIDERED TO BE SIMILAR IN NATURE		
	Serial Debentures of School Divisions and Districts	$ 148	$ 162
	Excess of Liabilities over Financial Assets	4,730	4,052
	Total Excess of Liabilities Over Financial Assets and Similar Items	$4,878	$4,214

Information concerning the Government's Guaranteed and Indirect Liabilities, Financial Commitments and Contingent Liabilities can be found in Notes 6, 7 and 8.

Trust Fund Assets/Liabilities at March 31, 1988 were $2,010 million (1987-$1,696 million). Further details are displayed in Note 5.

Exhibit 10

SUMMARY FINANCIAL STATEMENTS
GOVERNMENT OF THE PROVINCE OF MANITOBA
STATEMENT OF EXCESS OF LIABILITIES OVER FINANCIAL ASSETS
As at March 31, 1988
(with comparative figures for March 31, 1987)

($ millions)

	1988	1987
BALANCE BEGINNING OF YEAR BEFORE GIVING EFFECT TO CONSOLIDATION		$2,794
CONSOLIDATION OF MANITOBA PROPERTIES INC. AND RELATED COMPANIES (NOTE 1)		581
BALANCE BEGINNING OF YEAR ON A CONSOLIDATED BASIS	$4,052	$3,375
PRIOR YEARS' ADJUSTMENTS RELATED TO ACCOUNTING POLICY CHANGES		
Amortization of Foreign Currency Fluctuation (Note 11)	222	-
Valuation Allowance Increase (Note 12)	137	-
Criminal Injuries Compensation Board (Note 13)	13	-
Public Schools Support	-	50
	$4,424	$3,425
DEFICIT FOR THE YEAR	306	627
BALANCE END OF YEAR	$4,730	$4,052

Exhibit 11

SUMMARY FINANCIAL STATEMENTS
GOVERNMENT OF THE PROVINCE OF MANITOBA
STATEMENT OF REVENUE AND EXPENDITURE
For the Year Ended March 31, 1988
(with comparative figures for the year ended March 31, 1987)

($ millions)

	1988		1987
	Budget Estimate	Actual	Actual
REVENUE			
Manitoba Collections:			
Retail Sales Tax	$ 590	$ 567	$ 463
Fuel Taxes	189	191	173
Liquor Commission	154	152	142
Levy for Health and Education	185	188	127
Other Taxes	268	285	258
Fees and Other Revenue	199	188	184
Income Taxes:			
Corporation Income Tax	142	167	119
Individual Income Tax	881	989	760
Federal Transfers:			
Equalization	469	620	509
Health and Higher Education	447	434	418
Shared-Cost and Other	249	258	234
TOTAL REVENUE	$3,773	$4,039	$3,387
EXPENDITURE (Schedule 6) (Note 14)			
Health and Community Services	$1,815	$1,836	$ 1,689
Education	747	757	705
Economic and Resource Development	539	545	568
Manitoba Tax Credit Plans	217	210	205
Direct Local Government Assistance	109	103	101
Public Debt	438	492	412
Hydro Rates Stabilization	24	53	70
Consumer Services, Public Protection and Other Government Services	329	274	264
TOTAL BEFORE EXTRAORDINARY EXPENDITURE	$4,218	$4,270	$ 4,014
EXTRAORDINARY EXPENDITURE (Note 14)			
Workers Compensation Board	-	16	-
Manitoba Public Insurance Corporation	-	59	-
TOTAL EXPENDITURE	$4,218	$4,345	$4,014
DEFICIT FOR THE YEAR	$ 445	$ 306	$ 627

Exhibit 12

SUMMARY FINANCIAL STATEMENTS
GOVERNMENT OF THE PROVINCE OF MANITOBA
STATEMENT OF CHANGES IN FINANCIAL POSITION
For the Year Ended March 31, 1988
(with comparative figures for the year ended March 31, 1987)

($ millions)

	1988 Budget Estimate	1988 Actual	1987 Actual
Beginning Cash and Equivalents		$ 625	$ 552
Operating Transactions:			
Deficit for the year	$ (445)	(306)	$ (627)
Prior Period adjustment related to:			
Public Schools Support	-	-	(50)
Liability for Crown Corporation Losses and Expenditure	-	(13)	-
Accrued Interest	-	(17)	-
Non-Cash Items Included in Deficit:			
Consolidation of Manitoba Properties Inc.	-	7	12
(Increase) Decrease in Amounts Receivable	-	(38)	1
Write-off/Down of Loans, Advances and Long-Term Investments	-	10	-
Increase in Valuation Allowance	-	11	49
Increase(Decrease) in Accounts Payable, Accrued Charges and Deferred Revenue	-	(22)	74
Amortized Foreign Currency Fluctuation	85	150	51
Amortization of Debt Discount	8	8	7
Cash and Equivalents Required For Operations	$ (352)	$ (210)	$ (483)
Investing Transactions (Note 15):			
Acquired/Made	$ (851)	$ (920)	$ (776)
Redeemed/Realized	276	298	274
Cash and Equivalents Required For Investing	$ (575)	$ (622)	$ (502)
Financing Transactions (Note 15):			
Debt Issued: Foreign	NE	$1,067	$ 881
Domestic	NE	697	499
	$1,568	$1,764	$1,380
Debt Redeemed: Foreign	(39)	(323)	(71)
Domestic	(269)	(271)	(168)
Payment to (from) Provision for Foreign Currency Losses	(9)	(13)	18
Increase in Sinking Funds	(138)	(240)	(183)
	$1,113	$ 917	$ 976
Change in Trust Fund	-	272	82
Cash and Equivalents Obtained From Financing	$1,113	$1,189	$1,058
Change in Cash and Equivalents During Period	$ 186	$ 357	$ 73
Ending Cash and Equivalents		$ 982	$ 625

N.E. - Not Estimated

SUMMARY FINANCIAL STATEMENTS

GOVERNMENT OF THE PROVINCE OF MANITOBA

AMOUNTS RECEIVABLE **SCHEDULE 1**

As at March 31, 1988
(with comparative figures for March 31, 1987)

	($ millions) 1988	1987
Tax Revenue:		
Retail Sales Tax	$47	$ 36
Motive Fuel Tax	7	6
Gasoline Tax	9	9
Tobacco Tax	7	7
Revenue Act, 1964	4	3
	$74	$ 61
Interest Income:		
Province of Manitoba Sinking Fund	$25	$ 21
Other Investments	13	9
	$38	$ 30
Government of Canada and Other Governments:		
Shared Cost Programs	$62	$ 45
Other Income:		
Manitoba Agricultural Credit Corporation	$ 1	$ -
Manitoba Telephone System	-	1
	$ 1	$ 1
	$175	$137

SUMMARY FINANCIAL STATEMENTS

GOVERNMENT OF THE PROVINCE OF MANITOBA

LOANS AND ADVANCES
As at March 31, 1988
(with comparative figures for March 31, 1987)

SCHEDULE 2

($ millions)

	CROWN CORPORATIONS AGENCIES BOARDS AND COMMISSIONS	OTHER GOVERNMENTS	OTHER	1988 TOTAL	1987 TOTAL
Due 1 Year or Less	$ 363	$ 1	$ 38	$ 402	$ 430
Due Over 1 Year	3,357	8	29	3,394	2,765
Total	$3,720	$ 9	$ 67	$3,796	$3,195
Less: Sinking Fund	151	-	-	151	132
	$3,569	$ 9	$ 67	$3,645	$3,063
Less: Valuation Allowance	26	-	26	52	49
Net	$3,543	$ 9	$ 41	$3,593	$3,014

LONG-TERM INVESTMENTS
As at March 31, 1988
(with comparative figures for March 31, 1987)

SCHEDULE 3

($ millions)

	CROWN CORPORATIONS	OTHER	1988 TOTAL	1987 TOTAL
Shares:				
Common	$ 45	$ 6	$ 51	$ 45
Preferred	109	-	109	109
Debentures	4	-	4	4
Profit Sharing Agreement	-	10	10	-
	$158	$16	$174	$158
Less: Valuation Allowance	132	14	146	3
Net	$ 26	$ 2	$ 28	$155

SUMMARY FINANCIAL STATEMENTS

GOVERNMENT OF THE PROVINCE OF MANITOBA

ACCOUNTS PAYABLE, ACCRUED CHARGES AND DEFERRED REVENUE **SCHEDULE 4**

As at March 31, 1988
(with comparative figures for March 31, 1987)

	($ millions) 1988	1987
Accounts Payable	$ 49	$169
Accrued Charges		
Interest accrued on Provincial Borrowings and Trust Funds	189	157
Unfunded Liabilities (Note 10):		
Manitoba Public Insurance Corporation	59	-
Workers Compensation Board	16	-
Criminal Injuries Compensation Board	15	-
Manitoba Development Corporation	6	7
Public Schools Support	-	35
Other	1	-
Deferred Revenue	11	-
	$346	$368

SUMMARY FINANCIAL STATEMENTS
GOVERNMENT OF THE PROVINCE OF MANITOBA
SCHEDULE OF LIABILITIES FOR BORROWINGS
As At March 31, 1988
(with comparative figures for March 31, 1987)

SCHEDULE 5

($ millions)

FISCAL YEAR OF MATURITY	BONDS AND DEBENTURES CDN $	BONDS AND DEBENTURES US $	OTHER	CDA PENSION PLAN CDN $	GOVT OF CANADA CDN $	TREAS BILLS CDN $	PRF'D SHARES CDN $	TOTALS 1988	TOTALS 1987
1988	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 639
1989	76	118	218	42	4	325	-	783	454
1990	1	320	111	45	5	-	-	482	489
1991	310	278	121	51	5	-	-	765	569
1992	40	185	245	54	5	-	-	529	521
1993	276	-	475	57	5	-	-	813	780
1988-1993	$ 703	$ 901	$1,170	$ 249	$ 24	$ 325	$ -	$3,372	$3,452
1994-1998	$1,229	$ 668	$1,960	$ 400	$ 26	$ -	$ -	$4,283	$3,613
1999-2008	417	-	136	1,196	77	-	-	1,826	1,354
2009-2018	-	432	-	-	8	-	-	440	203
1994-2018	$1,646	$1,100	$2,096	$1,596	$ 111	$ -	$ -	$6,549	$5,170
Manitoba Properties Inc. (Note 17)	$ -	$ -	$ -	$ -	$ -	$ -	$ 399	$ 399	$ 399
Total Borrowings	$2,349	$2,001	$3,266	$1,845	$ 135	$ 325	$ 399	$10,320	$9,021
Reduced By:									
Unamortized Debt Issue Costs	10	7	27	-	-	-	-	44	39
Sinking Funds Provided	208	248	179	642	18	-	-	1,295	1,055
	$2,131	$1,746	$3,060	$1,203	$ 117	$ 325	$ 399	$8,981	$7,927

SUMMARY FINANCIAL STATEMENTS

GOVERNMENT OF THE PROVINCE OF MANITOBA

EXPENDITURE BY OBJECT **SCHEDULE 6**
For the year ended March 31, 1988
(with comparative figures for the year ended March 31, 1987)

	($ millions) 1988	1987
Personnel Services	$ 593	$ 552
Grants/Transfer Payments	2,390	2,222
Transportation	13	11
Communications	21	18
Supplies and Services	180	176
Social Assistance Related	292	258
Other Operating	51	35
Public Debt	492	412
Hydro Rates Stabilization	53	70
	$4,085	$3,754
Capital Related	260	260
	$4,345	$4,014

SUMMARY FINANCIAL STATEMENTS

GOVERNMENT OF THE PROVINCE OF MANITOBA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1988

1. EFFECT OF CONSOLIDATION OF MANITOBA PROPERTIES INC.

During 1984-85 and 1985-86 the Province sold land and buildings with an aggregate value of $917 million to Manitoba Properties Inc. (MPI). The sale was arranged through two intermediary crown corporations, Manitoba Properties Leasing Inc. and Manitoba Properties Management Inc., and resulted in the Province receiving common shares of these two corporations along with promissory notes of MPI and cash as the purchase consideration. The operations of MPI have been consolidated in the Summary Financial Statements of the Province for the fiscal years ended March 31, 1988 and March 31, 1987. This has resulted in the following effect on the Statement of Financial Position and on the Statement of Revenue and Expenditure:

a) Securities received from the sale of land and buildings to MPI in the amount of $182 million were eliminated for the year ended March 31, 1988 (1987-$182 million).
b) Promissory notes of $26 million for the fiscal year ended March 31, 1988 (1987-$17 million) were eliminated. These funds were advanced to cover administrative costs of $8 million (1987-$6 million) and capital expenditures of $18 million (1987-$11 million).
c) Liabilities were increased by $399 million for the year ended March 31, 1988 (1987-$399 million) to reflect the outstanding preferred shares of MPI (with an equivalent decrease in guaranteed and indirect liabilities).
d) The valuation allowance of $8 million (1987-$6 million) for MPI was eliminated.
e) The aggregate of these amounts, totalling $599 million for the fiscal year ended March 31, 1988 (1987-$592 million), has increased the Excess of Liabilities Over Financial Assets account by $592 million (1987-$581 million) and 1988 expenditure by $7 million (1987-$11 million).
f) The net effect on the expenditure accounts of the Government for the fiscal year ended March 31, 1988 has been an increase in public debt costs of $61 million (1987-$60 million), an increase in expenditure related to capital of $7 million (1987-$11 million), a decrease in expenditure for supplies and services of $59 million (1987-$59 million) and a decrease in Grants/Transfer Payments of $2 million (1987-$1 million).

2. PROVISION FOR FOREIGN CURRENCY FLUCTUATION ON MANITOBA HYDRO DEBT

The Province issues provincial securities to raise funds for Manitoba Hydro. This debt, as well as the effect of currency fluctuations for foreign issues, is considered borrowings of the Province and is reflected as such on the Statement of Financial Position. In addition, the Province guarantees debt which Manitoba Hydro issues in its own name. The fluctuation on the guaranteed debt issued in foreign currencies was $239 million at March 31, 1987. Pursuant to the Energy Rate Stabilization Act, the Province was responsible for the fluctuation on all Manitoba Hydro foreign currency debt. Because the guaranteed debt itself is not a liability of the Province, the

fluctuation on foreign currency debt for which the Province was responsible has been recorded as a separate liability, apart from borrowings.

The Energy Rate Stabilization Act was amended effective April 1, 1987 limiting the Province's liability for fluctuation on Manitoba Hydro debt. Manitoba Hydro became responsible for the fluctuation on its U.S. dollar denominated debt, whether issued by the Province or by Manitoba Hydro, except to the extent already provided by way of amortization by the Province to March 31, 1987. At maturity of each U.S. dollar debt issue, the Province is responsible for the lesser of the currency fluctuation on the maturing debt or the amount remaining in the provision account for that issue. The amount amortized by the Province at March 31, 1987 was $159 million. At March 31, 1988 the amortized amount remaining in the provision account related to outstanding issues is $153 million.

The Province retains responsibility for the fluctuation, in currencies other than U.S. dollars, for both its direct and guaranteed debt for Manitoba Hydro outstanding at March 31, 1987. As a result of the amendment to the Energy Rate Stabilization Act, Manitoba Hydro is now responsible for the fluctuation on debt issued after that date. As at March 31, 1988, Manitoba Hydro debt guaranteed by the Province contained no foreign currency other than U.S. dollars.

3. **BORROWINGS**

All borrowings are expressed in Canadian dollars. Foreign borrowings are converted at the exchange rate in effect at March 31.

The weighted average rate of interest based on actual interest payments made during 1987-88 was 10.46% (1987-11.02%).

The classification of borrowings by purpose is as follows:

	Exchange Rate in Effect at Issue Date		Exchange Rate in Effect at March 31	
	1988	1987	1988	1987
	($ millions)			
General Government Programs	$5,517	$4,828	$ 6,306	$5,514
The Manitoba Hydro Electric Board	2,531	1,986	2,745	2,298
The Manitoba Telephone System	562	527	564	528
Other	705	681	705	681
	$9,315	$8,022	$10,320	$9,021
Less: Sinking Funds	1,295	1,055	1,295	1,055
Unamortized Debt Issue Costs	44	39	44	39
	$7,976	$6,928	$ 8,981	$7,927

Included in "Other" is debt totalling $166 million which has been used to fund loans, advances and investments for which valuation allowances have been established at March 31, 1988. If write-off of these assets occurs, this debt would be considered to be General Government Programs debt.

4. UNAMORTIZED FOREIGN CURRENCY FLUCTUATION

At March 31, 1987, the Statement of Financial Position stated assets and liabilities at the exchange rate in effect at date of issue and reflected a Provision for Unrealized Foreign Currency Losses. At March 31, 1988, assets and liabilities in foreign currency have been restated at the March 31 exchange rate, and concurrently Unamortized Foreign Currency Fluctuation is now being shown. Details of the transactions are:

	($ millions) 1988	1987
Balance at beginning of year	$(959)	$210
Adjustment of Prior Years Amortization	205	-
Current year amortization	20	69
Provision for Unrealized Foreign Currency Losses at March 31, 1987		279
Unrealized Foreign Currency Fluctuation	(5)	(999)
Unrealized Foreign Currency Fluctuation on Manitoba Hydro Debt (Note 2)	86	(239)
Realized Foreign Exchange Gains (Losses)	(13)	-
Closing balance - Unamortized Foreign Currency Fluctuation	$(666)	$(959)

5. TRUST FUND

Included in the Statement of Financial Position is an amount owing to the Trust Fund which primarily represents surplus cash of Crown Corporations, Agencies, Boards and Commissions on deposit with the Minister of Finance for investment but not specifically invested. The assets and liabilities of the Trust Fund itself as at March 31st are as follows:

	($ millions) 1988	1987
ASSETS		
Amounts due from Operating Fund	$ 842	$ 570
Cash and Investments	586	586
Total Trust Assets	$1,428	$1,156
LIABILITIES		
Trust Fund Balances	$1,428	$1,156
Total Trust Liabilities	$1,428	$1,156

In addition, the Trust Fund includes cash and securities for which the Government's responsibility is custodial in nature. The amount reported at March 31, 1988 was $582 million (1987-$540 million).

6. GUARANTEED AND INDIRECT LIABILITIES

Debt issued by Crown Corporations, Agencies, Boards and Commissions which is guaranteed by the Government as at March 31st:

	($ millions) 1988	1987
Self-supporting Debt	$1,542	$ 1,683
Debt serviced in whole or in part from the Consolidated Fund	10	13
	$1,552	$ 1,696
LESS: Applicable Sinking and other related Trust Funds	263	273
	$1,289	$ 1,423

A portion of the foreign currency fluctuation on the guaranteed debt included above has been provided for in the Provision for Foreign Currency Fluctuation on Manitoba Hydro Debt.

7. FINANCIAL COMMITMENTS

The Government has entered into long-term financial arrangements wherein indebtedness has been issued that is not guaranteed by the Government, but the funds required for the payment of principal and interest will be either fully or partially provided from appropriations of the Consolidated Fund. The Government has also made future commitments against appropriations under long-term contracts that cover the acquisition and/or rental of physical assets. These financial commitments as at March 31st are as follows:

	($ millions) 1988	1987
LONG-TERM FINANCIAL ARRANGEMENTS:		
Hospitals & Personal Care Homes	$ 405	$ 362
Public Schools	252	219
Manitoba Housing and Renewal Corporation	229	231
Manitoba Water Services Board	2	2
Brandon University	3	3
	$ 891	$ 817
FUTURE COMMITMENTS:		
Acquisition of Physical Assets	79	113
Rental of Physical Assets	51	47
	$1,021	$ 977

In addition to the approved outstanding debt for Hospitals and Personal Care Homes, lines of credit up to $72.4 million (1987-$100.0 million) have been approved to finance capital projects currently in process. On completion of these projects, the borrowings will be converted to long-term debt.

8. CONTINGENCIES

The Government has provided guarantees for the following and accordingly has a contingent liability in the event of default:

	MAXIMUM GUARANTEE	AMOUNT OUTSTANDING MARCH 31, 1988	MARCH 31, 1987
		($ millions)	
Mortgages	$ 1	$ 1	$ 1
Performance Bonds	-	-	53
Promissory Notes	175	-	25
Bank Loans and Lines of Credit	38	16	2
	$214	$ 17	$ 81

This does not include guarantees that may be provided by Crown Corporations, Agencies, Boards and Commissions under their own separate authority.

The Province has provided a guarantee to the purchaser of Flyer Industries Limited covering all of the obligations of Manitoba Development Corporation arising out of the sale of Flyer Industries Limited including $53,000,000 of performance bonds on contracts for the supply of buses to various transit organizations.

The Government has been named in approximately 100 claims still outstanding at March 31, 1988. No provision has been made for these claims in the accounts at March 31, 1988 as the likelihood for success of these claims has not been established.

9. PENSION LIABILITY

The Province is required by legislation to pay 50% of the pension disbursements made to retired Provincial employees (with the exception of the share payable by Government Agencies for their employees) and to retired teachers. Such payments are charged to departmental appropriations as incurred and no provision is made to fund current or past service obligations of the Province to the Civil Service Superannuation Fund or to the Teachers' Retirement Allowances Fund. The reserves which are presently held in these Funds represent only the employees' obligation towards the total pension liability.

An actuarial valuation and report of the Government's liability to the Civil Service Superannuation Fund was determined as at December 31, 1986. The report also provided a formula to update the liability on an annual basis. In accordance with the formula adopted by the actuary, the Government's actuarial liability to the Civil Service Superannuation Fund has been calculated at approximately $346 million as at December 31, 1987 (1986-approximately $305 million). The liability of the Province to the Teachers' Retirement Allowances Fund has not been established by an actuarial valuation. The reserve which is held in the Teachers' Retirement Allowances Fund, representing the employees' obligation towards the total pension liability, amounted to $533 million as at December 31, 1987 (1986-$473 million). The Province's liability should approximate these amounts.

10. UNFUNDED LIABILITIES

The Province has accrued a liability at March 31, 1988 for unfunded losses or program expenditures in order to recognize the Province's responsibility to fund these amounts when they become payable:

	($ millions) 1988	1987
Manitoba Public Insurance Corporation:		
- Reinsurance Assumed Losses	$32	$ -
- Personal and Commercial Losses	27	-
Workers Compensation Board - Reimbursement of interest forfeited on employer assessments	16	-
Criminal Injuries Compensation Board - Unfunded future costs of compensation awards	15	-
Manitoba Development Corporation - Additional provision for warranty costs related to Flyer Industries Divestiture	6	7
Public Schools Support	-	35
Other	1	-
	$97	$42

11. AMORTIZATION OF FOREIGN CURRENCY FLUCTUATION

At March 31, 1987, the Statement of Financial Position stated assets and liabilities at the exchange rate in effect at the date of issue and reflected a Provision for Unrealized Foreign Currency Losses. An accounting policy change was made in 1987-88 whereby the annual amortization of fluctuation in currency values with respect to foreign currency debt uses the March 31 rate of exchange, as compared to the previous years' practice of using the average rate of the three preceding calendar years. This has the effect of increasing foreign exchange losses and accrued interest expense related to prior years by $205 million and $17 million respectively. The unamortized amount shown for 1987 has not been recalculated to reflect the new accounting policy.

12. VALUATION ALLOWANCES

As the result of an accounting policy change implemented in the 1987-88 fiscal year, changes in valuation allowances are charged to an appropriation expenditure. Prior to the 1987-88 fiscal year, such charges were recorded directly in the Excess of Liabilities Over Financial Assets Account. In implementing the accounting policy change the following adjustments were required retroactive to March 31, 1987 and were charged to the Excess of Liabilities over Financial Assets:

	($ millions)
Manfor Ltd.	$127
Manitoba Housing and Renewal Corporation	7
Leaf Rapids Town Properties Ltd.	3
	$137

The March 31 valuation allowance balance of $198 million (1987-$52 million) is after having given effect to the write down of some loans, advances and long-term investments where it has been determined that the realizable value has been permanently impaired:

	($ millions) 1988	1987
Manitoba Agricultural Credit Corporation	$4.4	$ -
Manitoba Energy Authority	3.3	1.4
Venture Capital Program	1.4	-
Manfor Ltd	-	128.5
Manitoba Development Corporation	-	37.2
Manitoba Housing and Renewal Corporation	-	12.7
Tantalum Mining Corporaton	-	2.5
Venture Manitoba Tours	-	1.7
Other	0.8	0.8
	$9.9	$184.8

13. CRIMINAL INJURIES COMPENSATION BOARD

Beginning with the 1987-88 fiscal year the Province is accruing the liability for long-term awards made by the Criminal Injuries Compensation Board. The accumulated liability at March 31, 1988 is $15 million. This has the effect of increasing expenditure related to prior years by $13 million and 1987-88 expenditure by $2 million.

14. LEGISLATIVE AUTHORITY FOR BORROWING AND EXPENDITURE

Limits established by legislation for borrowing funds and for expenditure from appropriations are shown below along with information regarding any non-compliance with these limits that may have occurred during the fiscal year.

1) BORROWING:	($ millions) Appropriation Acts	Loan Acts
Incremental Non-Lapsing Authority Provided in 1987 Acts	$ 700	$ 611
Amount Used During the Fiscal Year Ended March 31, 1988	291	38
Available for Future Years	$ 409	$ 573
Unused Borrowing Authority From Prior Years	25	1,657
	$ 434	$2,230
Less: Encumbered for Specific Purposes	-	12
Unencumbered Borrowing Authority at March 31, 1988	$ 434	$2,218

2) EXPENDITURE:

A) CHANGES FROM ORIGINAL BUDGET ESTIMATE

The original budget estimate shown on the Statement of Revenue and Expenditure consists of the statutory and voted appropriations that are authorized in the Main and Supplementary Estimates. This amount was increased during the fiscal year as follows:

	($ millions)
ORIGINAL:	
Main and Supplementary Estimates (including general statutory appropriations)	$4,218
INCREASED BY:	
Special Warrants	131
Adjustment of estimated amount of statutory appropriations to actual expenditure	22
Total Authorized Expenditure	$ 4,371

No adjustment has been made to the Budget Estimate to reflect the consolidation of Manitoba Properties Inc.

B)NON-COMPLIANCE WITH APPROPRIATION LIMITS

i) The following five voted appropriations of the Government were placed in a net overexpended position as a result of adjustments made to reflect the changes in accounting policy as defined in the Application of Accounting Policies, section IV:

ATTORNEY-GENERAL APPROPRIATION IV-6	
Protection of Individual and Property Rights	$2,641,530
BUSINESS DEVELOPMENT AND TOURISM APPROPRIATION XXXIII-2	
Business Development	$ 781,956
NATURAL RESOURCES APPROPRIATION XII-1	
Administration and Finance	$ 378,807
EMERGENCY INTEREST RATE RELIEF APPROPRIATION XXVIII-1	
Emergency Interest Rate Relief Program	$ 434,241
MANITOBA JOBS FUND APPROPRIATION XXIX-1	
Manitoba Jobs Fund	$4,212,705

ii) In addition, nine other appropriations of the Government had late accounts paid in the 1988-89 fiscal year that were in excess of the balance remaining in the appropriation at March 31, 1988. These late accounts paid 45 days after year end are excluded from March 31, 1988 liabilities by the existing accounting policy. These late accounts result in non-compliance with appropriation limits established for the respective programs.

iii) In addition, a number of adjustments resulting from changes in the valuation allowance accounting policy were recorded as expenditures although no appropriation had been provided for this purpose:

Crown Corporation Expenditures/Losses:	
Manitoba Development Corporation re Flyer	$5,851,792
Manitoba Potash Corporation	$5,389,586
Manitoba Energy Authority	$1,672,058
Manitoba Hazardous Waste Management	$ 300,313
Manitoba Oil and Gas Corporation	$ 608,536
Venture Manitoba Tours Ltd.	$ 265,115
Leaf Rapids Town Properties Ltd.	$ 55,253
Manitoba Mineral Resources Ltd.	($1,495,616)
Extraordinary Items:	
Manitoba Public Insurance Corporation	$59,060,000
Workers Compensation Board	$16,385,887

15. COMPARISON TO BUDGET ESTIMATE

For purposes of providing a meaningful comparison of changes in the financial position with the budget estimate, in addition to the budget data, other internally developed management information has also been included in the budget estimate information.

16. COMPARATIVE FIGURES

The Provincial Auditor qualified the Province's 1986-87 financial statement because of the Province's treatment of increases in valuation allowances and crown corporation losses. In order to preclude a qualification in the current Public Accounts with respect to the comparative year, 1987 expenditures, and consequently the 1987 deficit, have been restated to reflect these items as expenditures. This restatement is consistent with the 1988 treatment and presentation of such items. Certain of the 1987 statement of financial position figures have been restated to be consistent with the 1988 presentation as described in the changes to accounting policy notes. In addition, 1987 figures have been restated for the effect of consolidating Manitoba Properties Inc.

17. LIABILITIES FOR BORROWINGS - MANITOBA PROPERTIES INC.

The Government has undertaken to use its best efforts during each calendar quarter (cumulative during the year), commencing on July 1, 1989, to purchase, at a price not exceeding $25.00 per share plus all accrued and unpaid dividends and costs of purchase, 3/4 of 1% of the number of Series A Preferred Shares outstanding at the close of business on June 30, 1989.

SUMMARY FINANCIAL STATEMENTS
GOVERNMENT OF THE PROVINCE OF MANITOBA
ACCOUNTING POLICIES - STATEMENT AND APPLICATION
STATEMENT OF ACCOUNTING POLICIES

The basic accounting policies followed by the Government of Manitoba, which have been applied in the preparation of the Summary Financial Statements are summarized below. These policies have been developed and are applied in accord with the provisions of the Financial Administration Act, which is Chapter F55 of The Continuing Consolidation of The Statutes of Manitoba. Further information regarding their application to the financial transactions of the Government is provided in the section entitled "Application of Accounting Policies".

I. THE REPORTING ENTITY

The financial transactions of the Government are recorded in "The Consolidated Fund". The activities of The Consolidated Fund are divided into the "Operating Fund", which records the operational activities of the Government, and the "Trust Fund", which records the trust administration function.

Financial statements prepared for the "Operating Fund" report amounts recorded as Government revenue, expenditure on Government programs, the lending and investment of Government funds and the borrowing and repayment of debt. Separate financial statements are prepared for the "Trust Fund" which report the activities in the various categories of trust money administered by the Government.

The accounts of Manitoba Properties Inc.(MPI), Manitoba Properties Management Inc. and Manitoba Properties Leasing Inc. have been consolidated with the financial results of the Operating Fund of the Consolidated Fund in the Summary Financial Statements to reflect MPI's primary function as a provider of services to Government. The financial operations of other provincial crown corporations, agencies, boards and commissions are not consolidated, but are reflected in the summary financial statements to the extent that:

1. they receive money from or pay money to the Government, or

2. any non-recoverable deficits they incur are adjusted against the amounts loaned, advanced or invested in them by the Government, or

3. where the Government has no such loans, advances or investments involved, any losses they incur which are assumed by the Government are recorded as accrued charges.

II. BASIS OF ACCOUNTING FOR REVENUE AND EXPENDITURE

A. MODIFIED ACCRUAL ACCOUNTING

The revenues and expenditures of the Government are recorded on an accrual basis with exceptions noted as follows:

1. INCOME FROM CANADA-MANITOBA FISCAL ARRANGEMENTS - This income is recorded on a cash basis except that revenues received in advance of when they are earned are deferred to the appropriate fiscal year.

2. FEES AND OTHER REVENUE - Collections are recorded on a cash basis.

3. SALARIES AND WAGES - Salaries and wages are recorded as expenditures in the year in which they are paid. No accrual is made for salaries earned but not paid at year end, nor is any accrual recorded for salary related benefits such as vacation earnings.

4. PENSION - The Province does not record the annual cost of pension benefits earned by the civil service, teachers and members of the legislative assembly. The annual cost recorded by the Province is the government's share of pensions paid to retired employees, teachers and legislators.

5. GOODS AND SERVICES - A period of forty-five days after the end of the fiscal year is allowed for the payment of operating expenditures incurred during that fiscal year. Supplier accounts not paid within this period are treated as expenditures of the following year.

6. CAPITAL ASSETS AND INVENTORIES - Expenditures for the acquisition and/or construction of physical assets, acquisition of inventories and other deferred expenditures are not considered to differ from any other service to the public and accordingly are treated as an expenditure of the year in which the expenditure is made.

B. GROSS ACCOUNTING CONCEPT

Revenues and expenditures are recorded in gross amounts with the following exceptions:

1. The municipal share of Individual and Corporation Income Taxes, which is paid to Municipalities in accordance with the Provincial-Municipal Tax Sharing Act, is not recorded as revenue by the Government.

2. Refunds of revenue are treated as reductions of current year revenue.

3. Decreases in valuation allowances previously provided are treated as reductions to expenditure.

4. Recoveries from Crown Corporations and Government Agencies of the debt servicing costs on self-supporting debt are recorded as a reduction of Public Debt expenditure. The same treatment is also given to income earned on investments and interest on advances.

III. ASSETS AND LIABILITIES

1. The assets and liabilities reported in the financial statements are financial claims. The assets are claims by the Government on other parties and the liabilities are claims by other parties on the Government.

2. Physical assets, including inventories, do not represent financial claims on others. Therefore they are not reported as assets at fiscal year end. The Government has substantial holdings of physical assets such as buildings, highways and educational and health facilities, which will be used to provide services in future periods and may tend to appreciate in value over time.

3. Loans, advances and long-term investments held by the Government are subject to annual valuation. A Valuation Allowance is used to reflect the estimated change in value of these assets.

4. Investments, including sinking funds, made in foreign currencies are recorded at the Canadian dollar equivalent of the par value based on the exchange rate in effect at March 31.

5. Bonds, debentures and other long-term debt are recorded as liabilities at the par value of the issue. Issues in foreign funds are recorded at the Canadian dollar equivalent of the par value based on the exchange rate in effect at March 31. The foreign

exchange fluctuation is amortized over the life of the debt issue. Any discount, premium or commission incurred at the time of issue of the debt is also amortized over the life of the debt issue.

Sinking funds are maintained in accordance with the legal requirements of the debt instruments and the Financial Administration Act.

IV. GUARANTEED AND INDIRECT LIABILITIES

In addition to having direct debt, the Government also acts as a guarantor of securities issued by various other entities. The debt issued by Crown Corporations, Agencies, Boards and Commissions and guaranteed by the Government is largely self-supporting. Other guaranteed debt for schools, universities and hospitals is serviced in whole or in part from appropriations of the Consolidated Fund.

Legislation requires the maintenance of Sinking Funds for the retirement of the debt of most Crown Corporations, Agencies, Boards and Commissions. These Sinking Funds are held in Trust by the Minister of Finance. The Crown Corporation, Agency, Board or Commission to whom the debt applies make annual contributions to the Sinking Fund.

Contingent Liabilities that result from other financial activities of the Government are reported in the notes to the financial statements.

APPLICATION OF ACCOUNTING POLICIES

The following outlines the application of the accounting policies to the financial transactions of the Government:

I. REVENUE

A. Amounts received in April from Agents for provincially collected taxes pertaining to the year just ended are recorded as revenue receivable. Amounts not received by April 30 are not accrued, but are considered revenue in the following year.

B. Where, pursuant to an agreement or arrangement, money is received in advance relating to projects for which expenditures are to be made in more than one fiscal year, the money is deemed to have been received in each fiscal year in proportion to the related expenditure made in the respective fiscal year.

C. The accounts are kept open until June 30 to reflect any adjustments regarding revenue from the Government of Canada under the Canada-Manitoba Fiscal Arrangements.

D. Fees and other revenue collections are recorded on a cash basis.

II. EXPENDITURE

A. The following practices are applicable when recording the public debt costs of the Province:

1. An accrual is made to March 31 for interest receivable from loans, advances and investments.

2. The annual fluctuations resulting from the conversion of foreign currency investments to the Canadian dollar equivalent at March 31 are amortized over the remaining life of the investment.

3. An accrual is made to March 31 for the interest payable on bonds, debentures and other

long-term debt and on trust funds invested with the Minister of Finance. In the case of foreign issues, the accrual is calculated on the Canadian dollar equivalent of the par value of the outstanding debt based on the exchange rate in effect at March 31.

4. The annual fluctuations resulting from the conversion of outstanding foreign currency borrowings to the Canadian dollar equivalent at March 31 are amortized over the remaining life of the respective issues. Where an issue of debt is called for redemption prior to maturity and refinanced with another issue of debt, the original debt is converted at the exchange rate in effect at the date of redemption and the fluctuation is amortized over the term of the first replacement issue. However, if the remaining term of the original issue is one year or less, the fluctuation is fully expensed in the year of redemption.

5. Any discount, premium or commission incurred on the issue of long term debt is amortized over the life of the respective debt issue.

B. Increases (decreases) to the Valuation Allowance, which represents an estimate of the change in recoverable value of loans, advances and long-term investments, are charged (credited) to appropriations.

C. Payments made by the Government for capital purposes do not represent claims on others and are therefore not reported as assets, but rather as expenditures. Such expenditures are classified as "expenditures related to capital" in the Main Estimates of Expenditure and are defined as follows:

1. expenditures for property of all kinds, both real property and chattels, purchased or self-constructed for use by Government that are deemed to have an economic life in excess of one year;

2. expenditures for projects or activities which entail major renewals, modification or modernization by own labour forces or by contractors on behalf of the Government and which significantly prolong the expected economic life of the asset;

3. the principal portion of a debt repayment when the debt was incurred to acquire a physical asset and the acquisition cost of the physical asset was not previously reflected in the Consolidated Fund as an expenditure; or

4. grants or assistance payments to municipalities, school divisions, external agencies, commercial organizations and private individuals which are known to be for the purchase, construction or improvement of physical assets.

D. Expenditures, other than salaries and wages, related to the fiscal year just ended, processed and paid during the 45 days after the end of the fiscal year, are recorded as expenditures for the fiscal year just ended. Payments for goods and services made after the 45-day period pertaining to the fiscal year just ended are treated as expenditures of the following year.

However, accrual of expenditures

is allowed after the 45-day period if required to show the accurate financial condition of the Government, pursuant to authority provided under Section 8 of the Financial Administration Act. In this regard, any entries made after June 30 must be disclosed in the Public Accounts.

III. ASSETS AND LIABILITIES

The Statement of Financial Position is prepared in accordance with the following practices:

1. CASH AND EQUIVALENTS

This classification is comprised of the temporary investments of the Province which are increased/reduced by the net balance/overdraft in the Province's bank accounts. It is further reduced by the amount of uninvested cash belonging to the Provincial Sinking Fund. This cash is designated as part of the Provincial Sinking Fund and will be made available for investment when required.

Temporary investments are securities held as investments of the Government's available cash flow. They are generally comprised of money market instruments such as term deposits and negotiable securities which are intended to be held for a short term. All investments are shown at cost. The net bank balance/overdraft has been adjusted for cheques issued prior to and not presented for payment at March 31st and for cash in transit.

2. AMOUNTS RECEIVABLE

Amounts receivable include estimates at March 31 for provincially collected tax revenues, interest on investments and advances, the uncollected balance of claims related to shared-cost agreements with the Government of Canada and significant amounts expected to be recovered from Crown Corporations, Agencies, Boards and Commissions.

3. LOANS AND ADVANCES

Advances to Crown Corporations, Agencies, Boards and Commissions, which are generally interest bearing, are shown under this heading.

The Sinking Funds provided by Crown Corporations, Agencies, Boards and Commissions for repayment of the debt issued by the Province to fund advances to these entities are deducted from the advances.

Certain of the Crown Corporations are charged with responsibility for administering Government programs for which they receive funds from Government appropriations. These funds are applied by the Corporation towards the program administration cost, including, in some cases, a portion of the interest they are charged on these advances. The principal repayment for certain of the advances is dependent on total or partial funding from future appropriations of the Operating Fund.

Loans and advances to Municipal Corporations or others under various Government programs are included here. Certain of these amounts may be interest bearing depending on the nature of the program.

All loans and advances are subject to annual valuation to reflect reductions from their recorded value to their estimated realizable value. Where a loan or advance has been partially written down to reflect a permanent decline in its realizable value, it is carried at its decreased value. Otherwise, it is recorded at cost. Once written

down, the value of the asset is considered to be permanently reduced. A subsequent increase in value is recognized only when realized.

4. **LONG-TERM INVESTMENTS**

The majority of the Province's long-term investments consist of shares and debentures of Crown Corporations. All investments are subject to annual valuation to reflect reductions from their recorded value to their estimated realizable value. Where an investment has been partially written down to reflect a permanent decline in its realizable value, it is carried at its decreased value. Otherwise, it is recorded at cost. Once written down, the value of the asset is considered to be permanently reduced. A subsequent increase in value is recognized only when realized.

5. **VALUATION ALLOWANCE**

A valuation allowance is provided to reflect decreases in the value of loans, advances and long-term investments and is adjusted annually for changes that have occurred in the estimated realizable value of these assets. Increases in the valuation allowance are recorded as expenditures, and conversely decreases in the valuation allowance are treated as a reduction to expenditures.

Loans, advances or long-term investments may be written down in the accounts of the Government, pursuant to authority provided under the Financial Administration Act. The write down is applied to the valuation allowance, whether it occurs in the year the valuation allowance is provided or in a subsequent year.

The valuation allowance is determined as follows:

A. CROWN CORPORATIONS, AGENCIES, BOARDS AND COMMISSIONS - LOANS, ADVANCES AND LONG-TERM INVESTMENTS

1. OPERATING DEFICITS

The valuation allowance is used to provide for losses, that are other than temporary declines, in value of the Government's investments made by way of loans, advances or purchase of shares. The valuation allowance is based on the financial results applicable to the most recent fiscal year completed prior to April 1. Where an assessment of the accumulated deficit indicates a prospect for recovery from future operations, the amount of valuation allowance is adjusted accordingly.

2. NON-RECOVERY OF CAPITAL INVESTMENT

A valuation allowance may be provided where there is reasonable evidence that the Province's investment will not be realized.

If the Government has more than one type of investment in an organization (eg. common shares, preferred shares and debentures), the valuation allowance is assigned against the investments in order of priority on liquidation.

B. OTHER LONG-TERM INVESTMENTS

The valuation allowance is used to record losses, that are other than temporary declines, in value of the Government's investments in other than Crown Corporations, Agencies, Boards and Commissions. The valuation allowance is based on an annual valuation of the investments.

C. LOAN AND SUPPORT PROGRAMS

The valuation allowance is used to provide for the estimated amounts not recoverable under a Government loan or support program. The valuation allowance for doubtful accounts that has been established for that loan or support program is recorded by means of a valuation allowance placed against the loan or advance used to fund the program. Increases to the valuation allowance are recorded as an expenditure regardless of the timing of the write-off of the uncollectible accounts, such write-off being applied directly to the valuation allowance.

6. AMOUNT OWING TO THE TRUST FUND

A large portion of this money has been deposited with the Minister of Finance in accordance with the terms of the legislation regulating the management of sinking funds and the investment of surplus cash of Crown Corporations, Agencies, Boards and Commissions. Such deposits are pooled with other available funds of the Province and are accorded a market rate of interest.

7. ACCOUNTS PAYABLE, ACCRUED CHARGES AND DEFERRED REVENUE

Cheques issued during the forty-five day period after March 31, in payment for goods and services pertaining to the fiscal year just ended are shown as accounts payable rather than as outstanding cheques.

Accrued charges represent interest payable on provincial securities and Trust Funds, and include unfunded liabilities relative to crown entities and external agencies at March 31.

Deferred revenue consists of money received from taxation and shared-cost agreements which does not relate to the fiscal year just ended. It will be recorded as revenue in the appropriate year.

8. PROVISION FOR FOREIGN CURRENCY FLUCTUATION ON MANITOBA HYDRO DEBT

The Province retains the obligation to pay only the amounts that have been provided in the Province's accounts in respect of this debt up to March 31, 1987. The responsibility for foreign exchange gains or losses associated with the translation to Canadian dollars of the Manitoba Hydro United States dollar denominated debt was transferred to Manitoba Hydro effective April 1, 1987.

9. BORROWINGS

This category includes bonds, debentures, secured loans from the Government of Canada, treasury bills and notes and preferred shares issued by Manitoba Properties Inc. Securities issued in Canadian funds are recorded at par value. Securities issued in foreign funds are recorded at the Canadian Dollar equivalent of the par value based on the exchange rate in effect at March 31.

Borrowings are reduced by the unamortized balance of the discount or premium, and commission incurred on the issue of long-term debt which will be amortized over the remaining term of the debt issues for which these costs were incurred.

Borrowings are also reduced by sinking funds which are maintained in accordance with the legal requirements of the Province's direct debt instruments and the Financial Administration Act. Money is allocated annually to these sinking funds on the following basis:

A. a sum equal to 3% of the aggregate amount of general

purpose debt, in Canadian Dollars converted at the date of issue, outstanding at the end of the preceding fiscal year; and

B. all earnings derived from investing the sinking fund.

In addition, principal repayments of advances by agencies which are funded by the issue of provincial securities are deposited to the sinking fund, provided that the principal repayments are made prior to the maturity date of such securities.

The total shown for sinking funds also includes sinking fund money provided by Crown Corporations, Agencies, Boards and Commissions with respect to debt incurred on their behalf by the Government.

10. UNAMORTIZED FOREIGN CURRENCY FLUCTUATION

This balance represents the unamortized portion of unrealized foreign currency gains or losses on the conversion of the assets and liabilities of the Province to Canadian dollars at March 31 rates. It also includes the unamortized portion of realized foreign currency gains or losses on the conversion of the foreign currency debt called prior to maturity using the rates in effect at the time of the call.

When translation of foreign currency debt occurs at March 31, any fluctuation since the previous fiscal year-end is added to the unamortized balance for each debt issue and the resulting amount is amortized over the remaining term of the issue. The amortization is applied to the Public Debt expenditure account. When the debt matures, the actual loss (gain) from the amortized value is charged (credited) to the expenditure account.

Where an issue of debt is called for redemption prior to maturity and refinanced with another issue of debt, the original debt is revalued at the date of redemption. Any foreign exchange gain or loss compared to the amortized value is then amortized over the term of the replacement issue. This applies to only the first replacement issue. If further replacement issues are involved, the unamortized fluctuation is expensed. As well, if the remaining term of the original issue is one year or less, the unamortized fluctuation is fully expensed in the year of redemption.

11. EXCESS OF LIABILITIES OVER FINANCIAL ASSETS AND OTHER OBLIGATIONS HELD BY THE PROVINCE CONSIDERED TO BE SIMILAR IN NATURE

A. SERIAL DEBENTURES OF SCHOOL DIVISIONS AND DISTRICTS, TRANSFERRED FROM THE MANITOBA SCHOOL CAPITAL FINANCING AUTHORITY

The School Capital Financing Authority Act was repealed April 1, 1983 at which date all investments and money held by the Authority, as well as debt payable by the Authority, was assumed by the Government. The investments transferred to the Government consist of serial debentures issued by school divisions and districts for which the Government is primarily responsible for repayment. These securities are therefore included in this category because they do not represent a claim on other parties.

The estimates of expenditure provide an annual appropriation in the Consolidated Fund to cover the principal and interest costs of these debentures. The cash drawn from this appropriation for the required annual principal repayments is transferred to the

Province's sinking fund where it will be used for repayment at maturity of the debt assumed from the Authority. A similar treatment would be accorded any proceeds from the sale of the school debentures.

B. EXCESS OF LIABILITIES OVER FINANCIAL ASSETS

This account and the account previously described represent the difference between liabilities which are financial claims owing by the Government, and financial assets, which are financial claims receivable by the Government. Since the physical assets and materials inventories of the Government do not constitute a financial claim receivable by the Government, they are not considered in the determination of this balance.

IV. CHANGES IN ACCOUNTING POLICY

Section 10 of the Financial Administration Act requires disclosure of any change in the accounting policies of the Government from those followed in the preceding fiscal year.

A. The Province has calculated the 1987-88 amortization of fluctuations in currency values with respect to foreign currency denominated debt using the March 31 exchange rate. Previously, it used the average of the exchange rates that were in effect during the fiscal year just ended and the preceding two years.

This has resulted in an increase to amortized fluctuation losses for prior years of $205 million, and a decrease in 1987-88 costs of $12 million. The change has also affected interest on public debt payable in foreign currencies, as well as the amortization of debt issue costs resulting in a further charge to prior years of $17 million and an increase to 1987-88 costs of $2 million.

Concurrent with this change, borrowings will be presented on the Statement of Financial Position at the Canadian dollar equivalent of the par value based on the exchange rate in effect at March 31. The unamortized fluctuation is presented as an offset. Previously these borrowings were presented at the Canadian dollar equivalent of the par value at the date of issue, augmented by the amount of fluctuation that had been amortized. This revised presentation has been adopted at March 31, 1988 and at March 31, 1987, for comparative purposes. However, expenditures for the fiscal year ended March 31, 1987 have not been restated to reflect the effect of the change.

B. It was indicated, in the 1986-87 Public Accounts, that valuation allowances considered to be non-recoverable would be recorded as an expenditure appropriaton in the year subsequent to the year in which this determination was made. This policy has now been changed so that the loss is recorded in an expenditure appropriation the same year the loss has been determined. In the case of accumulated deficits of Crown Corporations, Agencies, Boards and Commissions, it is no longer a requirement that the asset be written down in order to charge an appropriation. Changes in the allowance are charged (credited) to expenditure regardless of the timing of the write down of the asset. Valuation Allowance increases of $19 million were charged to 1987-88 expenditure which would have been charged to 1988-89 under the old policy.

C. The unfunded liability for future costs of awards made under the Criminal Injuries Compensation program is now recorded at each fiscal year-end and the increase in liability is added to the annual cost of the program. The costs of the program were previously recorded on a cash-flow basis. These costs, $2 million for 1987-88 and $13 million related to prior years, had not previously been reflected in the Government's accounts.

D. The Province has assumed liabilities for losses, previously considered to be outside the Consolidated Fund, incurred by the Manitoba Public Insurance Corporation and the Workers Compensation Board. This has resulted in the recording of expenditure of $75 million for 1987-88. Prior to this change, such losses were only recognized if the Government had a loan, advance or investment recorded for the crown entity.

E. The consolidaton of Manitoba Properties Inc., Manitoba Properties Leasing Inc. and Manitoba Properties Management Inc. is a change in the reporting entity and has been applied retroactively to March 31, 1987.

V. ENTRIES MADE SUBSEQUENT TO JUNE 30, 1988

Section 8(2) of the Financial Administration Act requires disclosure of entries made after June 30th respecting transactions of the preceding year. Accordingly, the following are reported:

A. ENTRIES TO REFLECT ACCOUNTING POLICY CHANGES

The changes in accounting policy described in Section IV above were based on recommendations resulting from a study requested by the Government. These recommendations were received subsequent to June 30, 1988, and therefore the related entries were made subsequent to that date.

B. WRITE-OFF OF LOANS, ADVANCES AND LONG-TERM INVESTMENTS

Authorization for the write-off of $10 million of loans, advances and long-term investments, as detailed in note 12 to the Financial Statements, was provided by order-in-council 1266/88 approved on October 19, 1988, and was effective retroactively to March 31, 1988.

GOVERNMENT OF THE PROVINCE OF MANITOBA

TRUST FUND ASSETS AND LIABILITIES

As at March 31, 1988
(with Comparative Figures for March 31, 1987)

ASSETS	March 31, 1988	March 31, 1987
Amount Due from Operating Fund	$ 842,266,330	$ 569,504,889
Cash and Investments	585,723,258	586,337,571
Total Trust Assets	$ 1,427,989,588	$ 1,155,842,460
LIABILITIES		
Trust Fund Balances	$ 1,427,989,588	$ 1,155,842,460
Total Trust Liabilities	$ 1,427,989,588	$ 1,155,842,460
CUSTODIAL TRUST FUNDS		
Cash, Bonds and Other Securities held by the Department of Finance and Other Government Departments – as listed on page 5 — 25	$ 582,183,584	$ 539,809,928

GOVERNMENT OF THE PROVINCE OF MANITOBA

TRUST FUND ACCOUNTING POLICIES

The Trust Fund is divided into two primary divisions, Administered Trust and Custodial Trusts. Those trusts where the Government has the responsibility for the administration and for investment of the trust are considered Administered Trusts. Those trusts where the Government responsibility is custodial in nature and there is little or no administration responsibility are considered Custodial Trusts. Generally, the responsiblity for investment of Custodial Trust is that of the depositor. A statement of Assets and Liabilities for the Trust Fund is included in the Public Accounts showing the assets and liabilities for Administered Trusts. Details of Custodial accounts are set out in a note to the statement of Assets and Liabilities.

Administered Trusts are divided into five categories:

1. Sinking Funds – This category includes sinking fund contributions deposited with the Minister of Finance by Crown Corporations, Agencies, Boards and Commissions in respect of their direct debt.

2. Funds on Deposit For Investment – Funds surplus to the immediate cash requirement of Crown Corporations, Agencies, Boards and Commissions are deposited for investment with the Minister of Finance. Although certain of these deposits are covered by specific investments in the Trust Fund, the majority of these funds are invested with the Minister of Finance and interest is paid at market rate in accordance with the term of the investment.

3. Banking Facility Accounts — These accounts are operated for those Crown Corporations, Agencies, Boards and Commissions who bank with the Minister of Finance.

4. Operating Trusts — Certain trusts are established where legislation or agreements require receipts and related expenditure to be kept separate from Government revenue and expenditure. These "designated trusts" may, in some cases, be used for programs similar to those operated from appropriated funds but are kept separate because a trust requirement has been established. A separate Statement of Receipts, Payments and Transfers is prepared for each of these operating trusts and is published in the Trust Fund section of the Public Accounts.

5. Miscellaneous Trusts — This category contains trust accounts resulting from the sundry deposit of cash and/or securities with the Government.